Debtor's Ex. 9

(Part 1 of 2)

2022 Fiscal Plan for Puerto Rico

Restoring Growth and Prosperity

As certified by the Financial Oversight and Management Board for Puerto Rico

January 27, 2022

DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the "FOMB," or "Oversight Board") has formulated this 2022 Fiscal Plan based on, among other things, information obtained from the Commonwealth of Puerto Rico (the "Commonwealth," or the "Government").

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Oversight Board cannot express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

This 2022 Fiscal Plan is directed to the Governor and Legislature of Puerto Rico based on underlying data obtained from the Government. No representations or warranties, express or implied, are made by the Oversight Board with respect to such information.

This 2022 Fiscal Plan is not a Title III plan of adjustment. It does not specify classes of claims and treatments. It neither discharges debts nor extinguishes liens.

The 2022 Fiscal Plan may be amended from time to time, as appropriate in the sole discretion of the Oversight Board.

This 2022 Fiscal Plan is based on what the Oversight Board believes is the best information currently available to it. To the extent the Oversight Board becomes aware of additional information after it certifies this 2022 Fiscal Plan that the Oversight Board determines warrants a revision of this 2022 Fiscal Plan, the Oversight Board will so revise it.

For the avoidance of doubt, the Oversight Board does not consider and has not considered anything in the 2022 Fiscal Plan as a "recommendation" pursuant to Section 205(a). Nevertheless, to the extent that anything in the 2022 Fiscal Plan is ever deemed by the Governor or Legislature or determined by a court having subject matter jurisdiction to be a "recommendation" pursuant to Section 205(a), the Oversight Board hereby adopts it in the 2022 Fiscal Plan pursuant to PROMESA Section 201(b).

Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Government and the Oversight Board, but also by other third-party entities such as the government of the United States. Examples of these factors include, but are not limited to:

– *Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;*

– *The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes María and Irma;*

– *The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;*

– *The amount and timing of any additional amounts appropriated by the United States government to address the impacts of the COVID-19 pandemic;*

– *The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;*

– *The timeline for completion of the work being done by the Puerto Rico Electric Power Authority ("PREPA") to repair PREPA's electric system and infrastructure and the impact of any future developments or issues related to PREPA's electric system and infrastructure on Puerto Rico's economic growth;*

– *The impact of the COVID-19 pandemic on the financial, social, economic, and demographic condition of Puerto Rico;*

– *The impact of the measures described herein on outmigration; and*

– *The impact of the resolution of any pending litigation in the Title III cases*

Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied warranty of facts or future events; provided, however, that the Government is required to implement the measures in this 2022 Fiscal Plan and the Oversight Board reserves all its rights to compel compliance. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a course of action or transaction, to purchase or sell any security, or to make any investment decision.

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List of Acronyms and Key Terms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
AAR	Annual Audited Report
ACA	Affordable Care Act
ADEA	Agricultural Enterprise Development Administration (Spanish acronym)
ADSEF	Family Socio-Economic Development Administration (Spanish acronym)
ACFR	Annual Comprehensive Financial Report
AFSCME	American Federation of State, County and Municipal Employees
AMA	Metropolitan Bus Authority (Spanish acronym)
AMPR	Puerto Rico Teachers' Association (Spanish acronym)
April 2018 Fiscal Plan	Fiscal Plan certified by the Oversight Board in April 2018
ARP	American Rescue Plan Act of 2021
ASEM	Puerto Rico Medical Services Administration (Spanish acronym)
ASES	Puerto Rico Health Insurance Administration (Spanish acronym)
ASSMCA	Mental Health and Anti-Addiction Services Administration (Spanish acronym)
ATM	Maritime Transportation Authority (Spanish acronym)
BBA	Bipartisan Budget Act of 2018
CAF	(FCC) Connect America Fund
CAGR	Compound Annual Growth Rate
CARES	Coronavirus Aid, Relief, and Economic Security Act
CASA	Sustainable Support to Students Centers Project (Spanish acronym)
CAT bond	Catastrophe bond
CBA	Collective Bargaining Agreement
CBO	Congressional Budget Office
CDBG	Community Development Block Grant
CDBG-DR	Community Development Block Grant – Disaster Relief
CBDG-MIT	Community Development Block Grant – Mitigation
CCPRC	Cardiovascular Center of Puerto Rico and the Caribbean
CDPR	Center for Research, Education, and Medical Services for Diabetes
CDT	Diagnostic and Treatment Center (Spanish acronym)
CEE	State Elections Commission (Spanish acronym)
CHIP	Children's Health Insurance Program
CILT	Contribution-in-lieu of Taxes
CINE	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (Spanish acronym)
CMS	The Centers for Medicare and Medicaid Services
COFIM	Municipal Finance Corporation (Spanish acronym)
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)
COSSEC	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (Spanish acronym)
COR3	Central Office for Recovery, Reconstruction, and Resiliency
CRF	Coronavirus Relief Funds
CRIM	The Municipal Revenue Collection Center (Spanish acronym)
CRRSA	Coronavirus Response and Relief Supplemental Appropriations Act
CSR	Civil Service Reform
CSR Pilot	Civil Service Reform Pilot Program
CTC	Child Tax Credit
CUB	Land Use Consult
DCR	Department of Corrections and Rehabilitation
DB	Defined Benefit pension plan
DC	Defined Contribution pension plan
DDEC	Puerto Rico Department of Economic Development and Commerce (Spanish acronym)
DDP	Permitting Performance Dashboard
DEC	Determination of Categorical Exclusion
DMO	Destination Marketing Organization
DOH	Department of Health
DOJ	Department of Justice
DOJ-PR	Department of Justice – Property Registry
DOS	Department of State
DNER	Department of Natural and Environmental Resources
DPR	Discover Puerto Rico
DPS	Department of Public Safety
DRD	The Sports and Recreation Department (Spanish acronym)
DRF	Disaster Relief Fund
DRG	Diagnosis-Related Group
DSA	Debt Sustainability Analysis
DTOP	Department of Transportation and Public Works (Spanish acronym)
EA	Environmental Assessment
eFMAP	Enhanced FMAP
EIP	Economic Impact Payments
EITC	Earned Income Tax Credit
EPA	Environmental Protection Authority
ERP	Enterprise Resource Planning

ERS	Employee Retirement System
ESSER	Elementary and Secondary School Emergency Relief fund
FAM	Municipal Administration Fund (Spanish Acronym)
FCC	Federal Communications Commission
FDI	Foreign Direct Investment
FEDE	Special Fund for Economic Development (Spanish acronym)
Federal Government	The U.S. Federal Government
FEMA	Federal Emergency Management Agency
FEMP	Federal Energy Management Program
FFCRA	Families First Coronavirus Response Act
FHWA	Federal Highway Administration
FICA	Federal Insurance Contributions Act
FIE	Economic Incentive Funds (Spanish acronym)
FMA	Financial Management Agenda
FMAP	Federal Medical Assistance Percentage (FMAP)
FMM	Municipal Improvement Fund (Spanish acronym)
FOMB	Financial Oversight and Management Board for Puerto Rico
FPUC	Federal Pandemic Unemployment Compensation
FQHC	Federally Qualified Health Center
FTA	Federal Transit Administration
FTE	Full-Time Employee
FTZ	Foreign-Trade Zone
FY	Fiscal Year
FYTD	Fiscal-Year-To-Date
GAO	U.S. Government Accountability Office
GASB	Governmental Accounting Standards Board
GDB	Government Development Bank for Puerto Rico
GDP	Gross Domestic Product
GF	General Fund
GFAO	Government Finance Officers Association
GNP	Gross National Product
Government	Government of Puerto Rico
Governor	Governor Pedro Pierluisi
GSA	General Services Administration
Hacienda	Puerto Rico Department of Treasury
HHS	U.S. Department of Health and Human Services
HHS-OIG	Office of Inspector General at the U.S. Department of Health and Human Services
HIT	Health Insurance Tax
HMO	Health Maintenance Organization
HMS	HMS Ferries, LLC
HOPU	University Pediatric Hospital (Spanish acronym)
HPSA	Health Professional Service Areas
HRM	Human Resource Management
HTA	Highways and Transportation Authority
HUD	U.S. Department of Housing and Urban Development
IEEE	Institute of Electrical and Electronics Engineers
IEP	Individualized Education Plan
IFCU	Independently Forecasted Component Units
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPR	Invest Puerto Rico
IRP	Integrated Resource Plan
Island	Puerto Rico
JP	Planning Board (Spanish acronym)
JRS	Judiciary Retirement System
KPIs	Key Performance Indicators
LEA	Local Education Agency
LMS	Learning Management System
LUMA	LUMA Energy, LLC
M&A	Merger and Acquisition
March 2017 Fiscal Plan	Fiscal Plan certified by the Oversight Board in March 2017
MADS	Maximum Annual Debt Service
MCOs	Managed Care Organizations
MDRP	Medicaid Drug Reimbursement Program
MFCU	Medicaid Fraud Control Units
MICE	Meetings, Incentives, Conferences, and Exhibitions
MiPE	Mi Portal Especial
Mi Salud	Medicaid program in Puerto Rico (now called VITAL)
MMIS	Medicaid Management Information System
MOU	Memorandum of Understanding
MTSS	Multi-Tiered System of Support

NAP	Nutrition Assistance Program (Spanish: Programa de Asistencia Nutricional, PAN)
NRW	Non-Resident Withholdings
NTSP	Transportation and Public Services Bureau (Spanish acronym)
OATRH	Office of the Administration and Transformation of Human Resources
OCFO	Office of the CFO
October 2018 Fiscal Plan	Fiscal Plan certified by the Oversight Board in October 2018
O&M	Operations and maintenance
OECD	Organization for Economic Cooperation and Development
OGP	Office of Management and Budget (Spanish acronym)
OGPe	Permits Management Office (Spanish acronym)
OIPC	Independent Office of Consumer Protection (Spanish acronym)
OMA	Operations and Maintenance Agreement
OMB	Office of Management and Budget
OMEP	Office for Public School Improvement (Spanish acronym)
OPEB	Other Post-Employment Benefits
P3	Public Private Partnerships
P3 Authority	Public Private Partnership Authority
PA	Public Assistance
Parties	AAFAF and the Government
PayGo	Defined benefit actuarial responsibility program by which agencies and instrumentalities are responsible for paying their pensions obligations on an annual basis via a "PayGo Fee"
PBA	Public Buildings Authority
PBL	Project-Based Learning
PCOC	Consolidated construction permit (Spanish acronym)
PDMP	Prescription Drug Monitoring Program
PERM	Payment Error Rate Measurement
PEUC	Pandemic Emergency Unemployment Compensation
PIA	Pharmaceutical Industry Association
PISA	Program for International Student Assessment
Platino	Medicare Advantage program that also provides Medicaid wraparound services equivalent to Mi Salud / VITAL program
PMO	Program Management Office
PMPM	Per Member Per Month
PoA	Plan of Adjustment (confirmed on 1/18/2022)
PPOA	Power purchase and operating agreement
PPP	Public Private Partnership
PPT	Pilot Project Team
PRASA	Puerto Rico Aqueduct and Sewer Authority
PRCCDA	Puerto Rico Convention Center District Authority
PRDOH	Puerto Rico Department of Housing
PRDE	Puerto Rico Department of Education
PREB	Puerto Rico Energy Bureau
PREMA	Puerto Rico Emergency Management Agency
PREPA	Puerto Rico Electric and Power Authority
PREPA ERS	Puerto Rico Electric and Power Authority Employees' Retirement System
PRHFA (or HFA)	Puerto Rico Housing Finance Authority
PRHTA (or HTA)	Puerto Rico Highway and Transportation Authority
PRIDCO	Puerto Rico Industrial Development Company
PRITA	Puerto Rico Integrated Transit Authority
PRITS	Puerto Rico Information Technology Service
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
PRPB	Puerto Rico Police Bureau
PRPL	Puerto Rico Poverty Line
PRSOC	Puerto Rico Symphonic Orchestra Corporation
PRTC	Puerto Rico Tourism Corporation
PSC	Puerto Rico Public Service Commission
PSRB	Public Service Regulatory Board
PU	Single business permit (Spanish acronym)
PUA	Pandemic Unemployment Assistance
PYMEs	Small and Medium Enterprises (Spanish Acronym)
RCM	Revenue Cycle Management
RFP	Request for Proposal
RR	Roosevelt Roads
RSA	Restructuring Support Agreement
SAEE	Associate Secretary for Special Education (Spanish education)
SAIDI	System Average Interruptions Duration Index
SAIFI	System Average Interruptions Frequency Index
SBP	Single Business Portal
SCO	State Coordinating Officer
SEAs	State Education Agencies
SEC	State Elections Commission (English acronym)
SIFC	State Insurance Fund Corporation

SIFDE	Financial Information System of the Department of Education (Spanish acronym)
SOGR	State of Good Repair
SRF	Special Revenue Fund
SR	Structural Reform
SRI	Infrastructure Agency Recommendation
ST ratio	Student-to-Teacher ratio
SURI	Internal Revenue Unified System (Spanish acronym)
SUT	Sales and Use Tax
SWIS	State Wage Interchange System
T&A	Time and Attendance
TAMP	Transportation Asset Management Plan
TANF	Temporary Assistance for Needy Families
TNC	Transportation network companies
TPB	Transportation Policy Board
TPFA	Third-Party Fiduciary Agent
TRS	Teachers' Retirement System
TSR	Transportation Sector Reform
TU	Urban Train (Spanish acronym)
UDH	University District Hospital for Adults
UPR	University of Puerto Rico
URP	Uniform Classification and Remuneration Plan
USDA	United States Department of Agriculture
USDE	United States Department of Education
VITA	Volunteer income tax assistance
WIOA	Workforce Innovation and Opportunity Act
WIPR	Public Broadcasting Corporation (Spanish acronym)
2019 Fiscal Plan	Fiscal Plan certified by the Oversight Board in May 2019
2020 Fiscal Plan	Fiscal Plan certified by the Oversight Board in May 2020
2021 Fiscal Plan	Fiscal Plan certified by the Oversight Board in April 2021

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Executive Summary

After too many years of financial crisis affecting each resident and business of Puerto Rico, the end of the Commonwealth's bankruptcy is at hand. On January 18, 2022, Judge Laura Taylor Swain confirmed the Commonwealth Plan of Adjustment restructuring approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS), as well as more than $50 billion of unfunded pension liabilities. The Plan of Adjustment saves Puerto Rico more than $50 billion in debt service and reduces outstanding obligations to just over $7 billion.

The process of emerging from bankruptcy has been enormously complex. It took the concerted effort and hard work of a wide range of stakeholders, including the Government and Legislature of Puerto Rico, operating in an environment of considerable uncertainty to arrive at a largely consensual Plan of Adjustment enabling the Commonwealth, ERS, and PBA to exit bankruptcy. The bankruptcy process unfolded against the backdrop of a series of unprecedented events, including devastating natural disasters and a global pandemic.

This watershed event brings predictability and is the beginning of a new chapter for Puerto Rico, in which improving financial management and operational capacity can bring stability, and investment in structural reforms can bring new growth and prosperity. This Fiscal Plan prioritizes these critical steps for a better managed and more effective government, and for implementing structural reforms which are at the heart of all progress in economic development.

Until now the Board and the Commonwealth grappled with significant long-term uncertainty because the resources needed for future debt service and other liabilities were unclear. The confirmed Plan of Adjustment ends the uncertainty. With a more affordable and certain level of debt service, the Commonwealth can now use all other available resources to provide effective services for the people and business community of Puerto Rico. Many have misunderstood that the new debt service would force further reductions in spending; this is not true. The Board and the Commonwealth had together planned for this level of debt and there are no incremental reductions in spending necessary as a result of the new debt service. The end of this bankruptcy brings predictability to the finances of the Commonwealth.

Not only is there no further reduction in spending necessary at this time, but the 2022 Fiscal Plan outlines a set of historic investments in the workforce that provide critically important services to residents across the Island. These new investments, described further below, are an important step in rebuilding operational capacity and increasing the effectiveness of government. These investments are being made to support Government workers, many of whom have not had a pay raise since 2014 as a result of the financial crisis within which Puerto Rico has suffered since then. Today, having negotiated the new, reduced level of debt service, we have more available resources to proceed with strengthening the government by investing in high quality and effective government services.

In addition, the Plan of Adjustment and 2022 Fiscal Plan put an end to the longstanding practices of multiple Governments over many years, who made commitments to current and future retirees but did not invest adequate funding to be able to meet and deliver on those commitments. In particular moving forward, a pension reserve trust is established and funded over the next 10 years, so that current and future retirees can have confidence that their benefits will be available to them.

These new investments are enabled in part by a meaningful increase in federal resources and local revenues. Since the 2021 Fiscal Plan was certified, U.S. and global growth has continued to improve beyond expectations as a result of strong stimulus packages implemented to respond to the pandemic. As a result, Puerto Rico - like most U.S. states - has seen stronger than forecasted revenue performance. In addition, Puerto Rico has benefited from several meaningful increases in federal funding. Recent guidance issued by the Centers for Medicare and Medicaid Services

(CMS) substantially increased the amount of federal funding available for the Medicaid program. As a result, program costs that were previously forecasted to be funded using Commonwealth resources are now paid by the Federal government. This in turn frees up incremental Commonwealth resources to be used in other high priority areas of public policy.

This is a very important moment for the Commonwealth. For the first time in years, it can manage its resources without the cloud of uncertainty of bankruptcy. In addition, Puerto Rico has received a welcome infusion of historic levels of federal support, creating new opportunities to address high priority needs. The 2022 Fiscal Plan provides a roadmap to take maximum advantage of the current situation to build on that predictability, create an environment of fiscal stability, and develop the conditions for long-term growth and economic development. This opportunity requires renewed commitment by the Government of Puerto Rico to practice prudent fiscal management, in order to take full advantage of the opportunities created by the Plan of Adjustment. The 2022 Fiscal Plan provides the funding and the detailed action steps needed to make these changes a reality. It is the Board's sincere belief that enduring change is possible and can result in tangible benefits for everyday residents.

Priorities in the 2022 Fiscal Plan

The 2022 Fiscal Plan prioritizes resource allocations across a few major themes:

- **Investing in the operational capacity of government to deliver services with Civil Service Reform (CSR), including increasing salaries:** The 2022 Fiscal Plan reflects the need to invest in and improve the civil service. This investment is made through comprehensive reform based on the implemented CSR Pilot Program ("CSR Pilot") to improve the civil service including evaluations, recruitment, and organizational restructuring. The 2022 Fiscal Plan includes support for a simple and uniform position classification system with a corresponding pay structure that is aligned to market rates. It ensures the Commonwealth has competitive, fair, and justified salaries. It includes salary raises for public employees that are providing critical day to day services but have not had a raise in many cases since 2014. This salary increase includes teachers, correctional officers, and firefighters, among others. Although a Uniform Classification and Remuneration Plan (URP) establishes a uniform role and pay structure for its employees, a URP alone will not lead to a long-overdue transformation of the civil service in Puerto Rico. The URP will be part of a comprehensive CSR plan. To address the urgency with compensation structures, the effective date of the URP implementation will be January 2023, pending compliance with CSR milestones.

- **Prioritizing obligations to current and future retirees:** The Plan of Adjustment includes a mechanism to set aside resources to fund the Commonwealth's pension obligations. While most states have set aside resources equivalent to 70+% of pension liabilities, the Government of Puerto Rico (over many decades and administrations) did not fund its pension obligations, with the result that it has nothing set aside at this time. To bring the Commonwealth in line with at least the bottom decile of states, the 2022 Fiscal Plan provides for the Pension Reserve Trust to achieve an approximate 50% funding ratio by the end of fiscal year 2031. In addition, the 2022 Fiscal Plan provides for incremental funding of a total of $864 million for investment in enhanced police retirement benefits, $5 million annually for healthcare coverage for retired police officers who do not yet qualify for Medicare, and $20 million in total incremental funding over 11 years for the Symphonic Orchestra Pension Fund to address yet another existing unfunded pension liability.

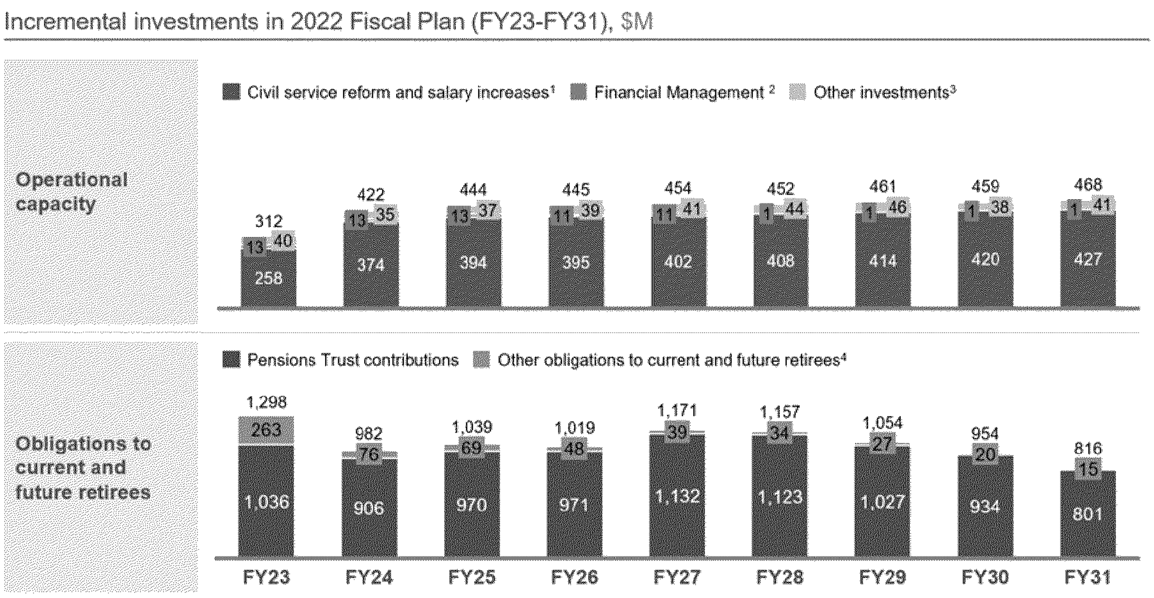
- **Creating a fiscally responsible post-bankruptcy Government:** The Government must maintain fiscal responsibility by implementing a comprehensive financial management agenda to ensure that Puerto Rico never again suffers from the problems that led to the fiscal crisis in the first place. Successful implementation requires a deep-rooted change in the Government's approach to financial management. A collective commitment from Government leadership including the Governor, the CFO, the legislature, and agency heads is critical for the institutionalization and roll out of the Financial Management Agenda ("FMA"), as outlined

in this Fiscal Plan. The 12 initiatives in the FMA are carefully chosen to lay a foundation for success, build on progress that has already been made by the Board and the Government together, and achieve milestones that are most critical to restoring fiscal responsibility in Government and ensuring financial stability. The FMA calls for a properly structured and empowered Office of the Chief Financial Officer ("OCFO") that pursues timely financial audits, transparent and useful financial reporting, resource management, and implementation of long-term planning objectives. Furthermore, the FMA includes implementation of initiatives such as: Real property registry, Time & Attendance, Debt Management Policy, and Budget Best Practices. The 2022 Fiscal Plan includes additional detail and implementation steps for implementing the FMA across government.

Since certifying the first Fiscal Plan in 2017, and notwithstanding the multiple natural disasters and the global pandemic, the Oversight Board has worked with the Government to make initial progress toward these objectives. This resulted in the ability of the Government to increase expenditures in times of crisis and uncertainty, while ensuring total expenditure levels remain within total available revenues. There is a new level of transparency and control over government spending, including the elimination of multi-year appropriations that permitted overspending; controls over the reapportionment of funding between concepts of spend to eliminate the defunding of accrued liabilities; and regular reporting on revenues and expenses. Moreover, the fiscal year 2020, 2021, and 2022 budgets were built at a granular "concept code" level (e.g., differentiating between spend on professional IT services versus advisory services). The Oversight Board has exercised authority over government contracts to avoid overspending, and the Government has been held accountable to its implementation requirements via public hearings, such as those held on education, public safety, corrections, and economic development.

These actions have helped enable the Commonwealth to exit bankruptcy with sustainable and affordable debt, while increasing investment in government services.

EXHIBIT 1: INCREMENTAL INVESTMENTS IN 2022 FISCAL PLAN (FY2023-FY2031)



1 Increased URP budget and new positions, increased salaries for PRDE Teachers (incl. social security), PRDE School Personnel (Non-Teachers), PRDE School Personnel and Student Services, Judicial Branch (except Judges), Medical Residents, Corrections Officers, Oversight entities (incl. new positions), and Christmas Bonus Guarantee. Firefighter salary raises will be sourced through the funds identified in Act 181-2019
2 OCFO Payroll, OCFO Opex, ERP
3 Excludes PoA-related costs and majority of post-budgetary decisions and adjustments, includes OIG funding entirely in GF, Families funding for third-party case managers, Congressional Budget Office funding, State elections funding, and Plan Vital for retired and active police officers
4 Symphonic orchestra Pension Fund and Police retirement for Act 1 and Act 447

Continuing investments in sustained priorities from prior fiscal plans

The 2022 Fiscal Plan also continues or makes incremental investments to support frontline services and to enhance agency operations. These include funding to bolster (i) healthcare infrastructure and services (e.g., capital improvements at public hospitals, public hospital IT, telehealth infrastructure, opioid treatments, education loan forgiveness for rural healthcare professionals, and funds to maintain nurse and health professional staffing levels), (ii) investments in public safety (e.g., police salary raises, police equipment and capital, funds to hire Forensics Institute personnel, and funds for a Department of Corrections and Rehabilitation facility consolidation), (iii) investments to improve educational outcomes (e.g., funds for school psychologists and nurses, better transportation for students, teacher time and attendance analysis, needs based scholarships, incentives for student attendance reporting, digitization, teacher and director salary raises, and innovation), and (iv) funding for critical supporting Government operations (e.g., funds to support Enterprise Support Planning (ERP) implementation, hire staff to finalize centralized procurement initiatives, accelerate municipal service consolidation, create transparency into economic incentives, hire special prosecutors and agents for the Specialized Domestic Violence, Sexual Crimes and Child Abuse units, and enable the fourth phase of the "Abriendo Caminos" infrastructure improvement program and for regular maintenance programs for the road infrastructure, etc.). These investments also include funds for the local portion of an Earned Income Tax Credit to encourage more formal labor market participation on the Island and needs-based scholarships for University of Puerto Rico to ensure every student on the Island can access higher education.

In addition, prior fiscal plans included important investments to create the conditions for growth. To ensure Puerto Rico can compete in a global economy, prior fiscal plans set aside critical funds for technology infrastructure and workforce development programs. These include $400 million to boost universal broadband access through incentives to expanded broadband roll out and the provision of faster service, and $50 million to establish a 21st Century Technical and Business Education Fund, designed to develop technical and business skills that are aligned with the needs of the 21st century economy. These funds have not yet been disbursed and their effective utilization in the coming years is critical.

Increased resources available to the Commonwealth

Since the 2021 Fiscal Plan was certified in April, the Commonwealth has seen a surge in available resources, largely attributable to two major developments:

- Increased federal funding for health care as a result of recent CMS guidance increasing the federal funding cap by $2+ billion per year along with a projected increase in prescription drug rebate revenues that the Commonwealth will receive as a result of joining the federal Medicaid Drug Rebate Program (MDRP)
- Improved local revenue collections as a result of higher-than-expected overall U.S. growth, increased local consumption and economic activity enabled by enhanced income support programs (e.g., ~$460 million increase in annual federal funding for the Nutrition Assistance Program), and sustained increase in revenues resulting from a change to the tax treatment of partnership entities

Changes to expenditures post-bankruptcy

Relative to the 2021 Fiscal Plan, the 2022 Fiscal Plan arrives at a new set of expenditure projections that factor in the now-established debt service and other costs related to the Plan of Adjustment, as well as additional investments enabled by the increased resources available to the Commonwealth. The primary changes to the expenditures forecast fall into four major categories:

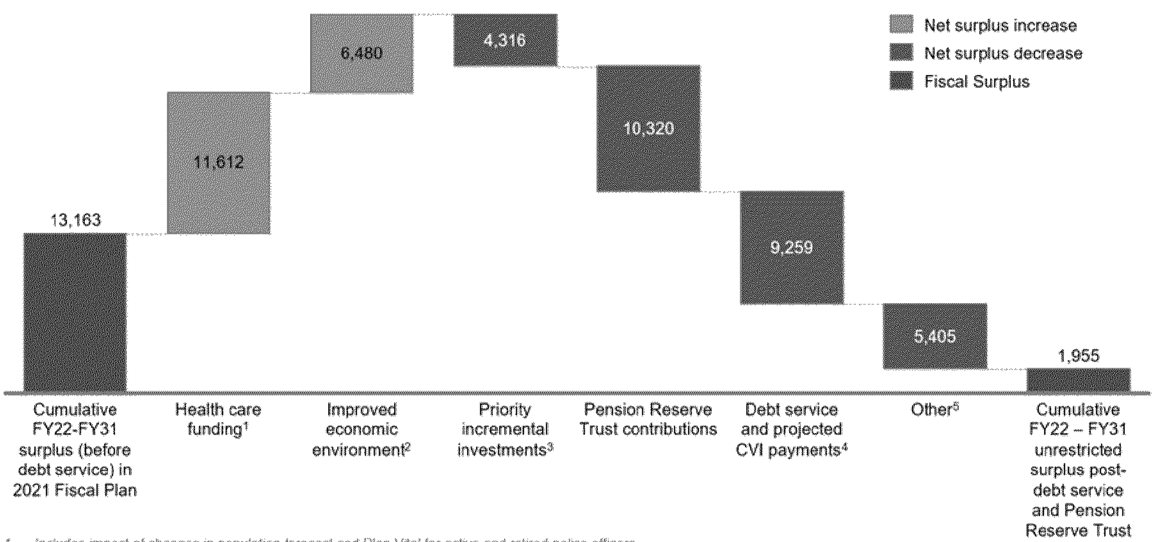
- Debt service costs as included in the Plan of Adjustment
- Costs related to Act 53-2021, which include additional funding for UPR for five years, removing reductions to retiree pensions, and additional funding for municipalities

- Costs related to the employees transferred from PREPA to the Commonwealth
- Incremental investments enabled by the increased resources available to the Commonwealth, including salary increases

The changes to revenues and expenditures between the April 2021 Fiscal Plan and the 2022 Fiscal Plan are summarized in *Exhibit 2*.

EXHIBIT 2: COMPARISON OF CUMULATIVE COMMONWEALTH SURPLUS (FY2022-FY2031) BETWEEN 2021 FISCAL PLAN AND 2022 FISCAL PLAN

Comparison of Cumulative Commonwealth Surplus, FY22-FY31, $M



1 Includes impact of changes in population forecast and Plan Vital for active and retired police officers
2 Impact of adjusted macroeconomic assumptions, including near-term inflation, updated long-term CBO US growth and inflation projections, incremental Federal funding (NAP, EITC, IIJA, Medicaid), as well as recurring revenue adjustments to Partnerships and Crudita tax base
3 Incremental investments include Uniform Classification and Remuneration (URP) investments, salary increases for teachers and correctional officers, police pension and retiree health benefits, and other investments aimed at improving operational capacity and financial management
4 Includes estimated SUT and Rum CVI payments
5 Net impact of all other changes and adjustments, notably the mobilization of PREPA employees under the Commonwealth and certain PoA-related expenditures. Also removes surplus of public entities potentially not available to the Commonwealth

Long-term challenges for Puerto Rico

The people of Puerto Rico need and deserve more than predictability and stability, however. They require plentiful good jobs, a dynamic and prosperous economy, affordable and reliable electricity, and an efficient and responsive public sector—but these things have been lacking for more than a decade. Since 2005, the economy has shrunk, the number of people living under the poverty line has increased, electricity has remained expensive and unreliable, labor market regulations have remained burdensome, the business environment has remained complicated and difficult, and the public sector has provided declining levels of service at a high cost to residents.

In recent years, the federal government has stepped in to provide significant, valuable financial support and temporarily slow some of the challenging trends Puerto Rico was facing. However, the Board and the fiscal plans remain focused on addressing the long-term trends to create the conditions for growth.

Importance of structural reforms

For five years, the Board has worked to fulfill the mandate of PROMESA—to achieve fiscal responsibility and access to capital markets—by developing a comprehensive approach to fiscal, management, and structural problems. The Oversight Board's fiscal plans have provided a roadmap to institute robust structural reforms to spur economic growth, make strategic

investments to improve the Island's resilience against natural disasters, and take the steps necessary to improve government efficiency.

The 2022 Fiscal Plan continues to incorporate a set of structural reforms that, if successfully implemented, will enable Puerto Rico to begin to grow again based on competitiveness, countering the negative growth trajectory that has plagued the Island for over a decade, and reducing the dependence on federal funds to stimulate economic development. These include human capital, welfare, and education reforms to advance successful participation in the formal labor market, reforms to streamline core business processes (e.g., paying taxes, registering property, and obtaining permits) to enable job creation by attracting greater levels of investment into the economy, and reforms to facilitate reliable power and stable infrastructure for businesses and households. Each of these are elements required for Puerto Rico to compete for investment within the United States and globally, and to stem outmigration from the Island:

- **Human capital and welfare reform:** Promoting participation in the formal labor force by creating incentives to work through Earned Income Tax Credit (EITC) benefits and Nutritional Assistance Program (NAP) reform, as well as providing comprehensive workforce development opportunities to improve skills and ensure workforce is prepared for the jobs of tomorrow. EITC and NAP reform are projected to increase the economic growth rate by 0.15% in FY2025.

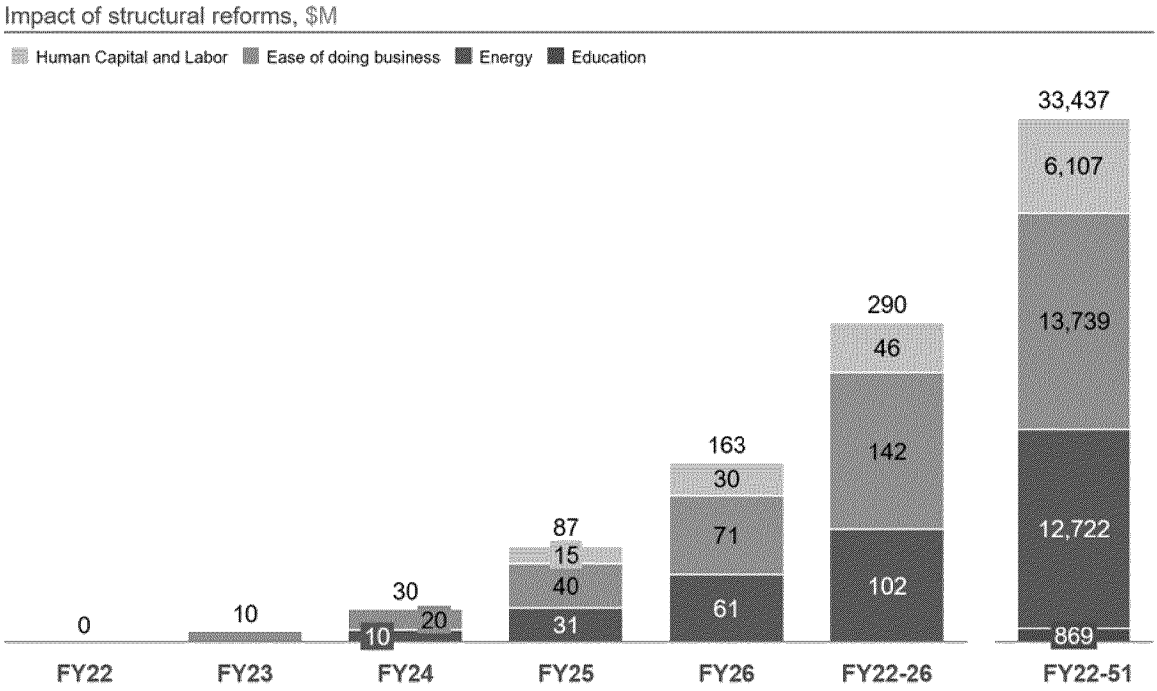
- **K-12 education reform:** Transforming the K-12 education system to dramatically improve student outcomes and contribute to an effective workforce in the long-term. Education reforms are projected to add 0.15% to the GNP growth rate between FY2037-FY2051.

- **Ease of doing business reform:** Improving the competitiveness and attractiveness of Puerto Rico's economy by (a) reducing obstacles to starting and sustaining a business through improvements to processes to obtain permits, register property, and pay taxes, and (b) establishing best-in-class entities to attract investment and increase tourism. These reforms are projected to drive a 0.30% uptick in overall growth by FY2026.

- **Power sector reform:** Providing affordable, cleaner, and more reliable energy through the transformation of PREPA, the establishment of an independent, expert, and well-funded energy regulator, and the development of renewable power generation. This reform is projected to increase growth by 0.30% by FY2026.

- **Infrastructure reform:** Integrating all transit assets under PRITA, so it can act as a unitary transit authority managing all transit assets on the Island (e.g., all buses, ferries, Tren Urbano), and reforming the public transportation sector more broadly.

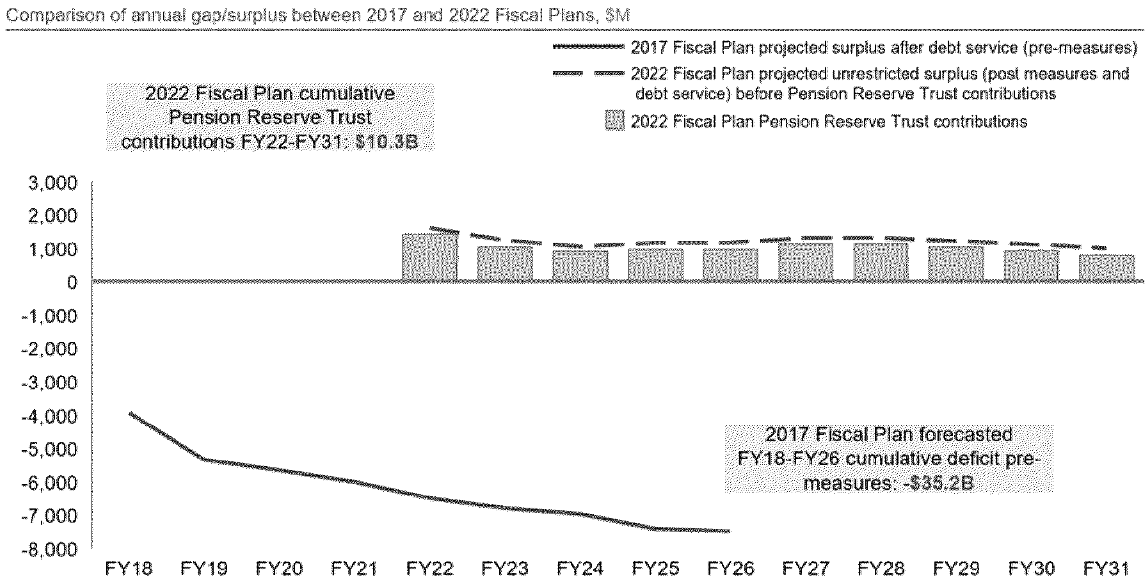
EXHIBIT 3: ESTIMATED IMPACT OF STRUCTURAL REFORMS IN THE 2022 FISCAL PLAN



As the Oversight Board began its work in late 2016, the Commonwealth was projected to run structural annual deficits exceeding $7 billion after contractual debt service before the impact of measures (See *Exhibit 4*). This deficit was difficult to forecast with certainty because of the protracted delays in issuing annual audited financial statements, lack of proper fiscal controls, lack of centralized financial records, and inefficient financial management. Puerto Rico had also been in an economic structural decline for over a decade, which led to an eroding tax base. To finance these primary deficits, Puerto Rico resorted to issuing debt, which became unsustainable.

In contrast, the 2022 Fiscal Plan projects unrestricted surplus after debt service to average $1 billion annually between fiscal years 2022-2031. This enables the Commonwealth to invest $10 billion in the Pension Reserve Trust during the same period, resulting in a 50% funding ratio by the end of fiscal year 2031.

EXHIBIT 4: ANNUAL GAP/SURPLUS BETWEEN 2017 FISCAL PLAN AND 2022 FISCAL PLAN



* * *

The Board is proud to certify this fiscal plan as the Commonwealth emerges from bankruptcy with sustainable and stable debt service. Through years of hard work, and with the collaboration of hundreds of stakeholders, the conditions are now in place for the Government of Puerto Rico to invest in a better future for all its residents. Confirmation of the Plan of Adjustment and the unprecedented level of federal support provides a once in a generation opportunity to transform this newfound predictability into stability, and economic prosperity. This Fiscal Plan enables the necessary conditions for growth, including building resilient infrastructure, investing in economic development, improving government operational capacity, and promoting fiscal responsibility and financial management. Prudent use of both federal and local funds will allow Puerto Rico to rebound from the effect of the pandemic on residents, businesses, and the social sector. These investments can also unlock creativity, entrepreneurship, and private sector investment – especially when coupled with the much-needed civil service and ease of doing business reforms. Though the global pandemic continues to challenge residents of Puerto Rico, the Board is certifying the 2022 Fiscal Plan with a sense of optimism as a new, promising chapter begins.

PART I: Context for Puerto Rico's current economic and fiscal challenges

Chapter 1. Long-term economic trends in Puerto Rico

Even before suffering a series of natural disasters in the form of hurricanes, earthquakes, and the COVID-19 pandemic starting in 2017, Puerto Rico's economy had been in an acute structural decline for over a decade. The Government had defaulted on much of its debt, and nearly half of residents lived below the national poverty line. The reasons for these problems are multiple, but the root causes stretch back 40 years.

In the 1940s and 1950s, led by Operation Bootstrap, Puerto Rico's economy grew rapidly, and productivity increased by 5% per annum as it transitioned from an agricultural-led to a manufacturing-led economy. However, as economic performance began to decline in the 1970s, the Federal Government adopted two significant policies to help Puerto Rico shore up its economy.

First, transfer programs increased dramatically, particularly as Puerto Rico started receiving Nutritional Assistance Program (NAP) funding, eventually providing, in aggregate, a proportion of residents' personal income that was twice the U.S. mainland average. In addition to raising costs for the Government, these programs, at times, created disincentives to work due to benefits that were high relative to wages available in the formal labor market.

Second, in 1976, Section 936 of the federal tax code was introduced to promote investments by companies that could transfer their "intangible assets" to Puerto Rico, and thereby shift profits to the Island. These Section 936 companies, which were mostly in pharmaceuticals and life sciences, became a pillar of Puerto Rico's economy, creating valuable local supply chains and local banking deposits, and contributing substantial tax revenue. In the same year, Puerto Rico passed Law 80, which instituted protections against wrongful discharge for local workers and mandated severance for firms attempting to remove employees. This law made Puerto Rico's labor market significantly more rigid and placed it out of step with the prevailing labor markets in the U.S.

In 1996, Congress decided to end Section 936, gradually phasing it out by 2006. In the face of an anemic local private sector, the Government also expanded its employment to the point that, by 2000, 30% of Puerto Rico's jobs were in government and a full 40% of workers with college degrees worked in the public sector. Major sectors such as water, electricity, and ports are still run by public corporations, and have consistently created a drain on the economy by delivering lower quality services at high costs while crowding out private investment. There was also pervasive cross-subsidization among the Commonwealth, public corporations, and other parts of the public sector that obfuscates financial management and accountability. Finally, there was a high degree of political interference in decisions that affect every aspect of life in Puerto Rico. As a result, Puerto Rico underperformed on all important measures of a modern economy, including educational attainment, cost of electricity, quality of water, tax compliance, and labor market participation.

To promote the private sector, the Government undertook a broad tax incentives policy that led to a highly complex web of non-transparent subsidies and special tax arrangements. These actions neither promoted growth nor treated companies equitably, often discriminating against Puerto Rican companies in favor of multinational companies. Moreover, this system created no inducement for new investment without similar tax incentives, further eroding the potential tax base. In addition, generous government and federal transfer programs, taken together, produced disincentives to formal work, given the potential loss of housing and/or healthcare, while

increasing the share of the informal economy. Tax compliance has never been adequate in Puerto Rico, and it became increasingly difficult in this environment.

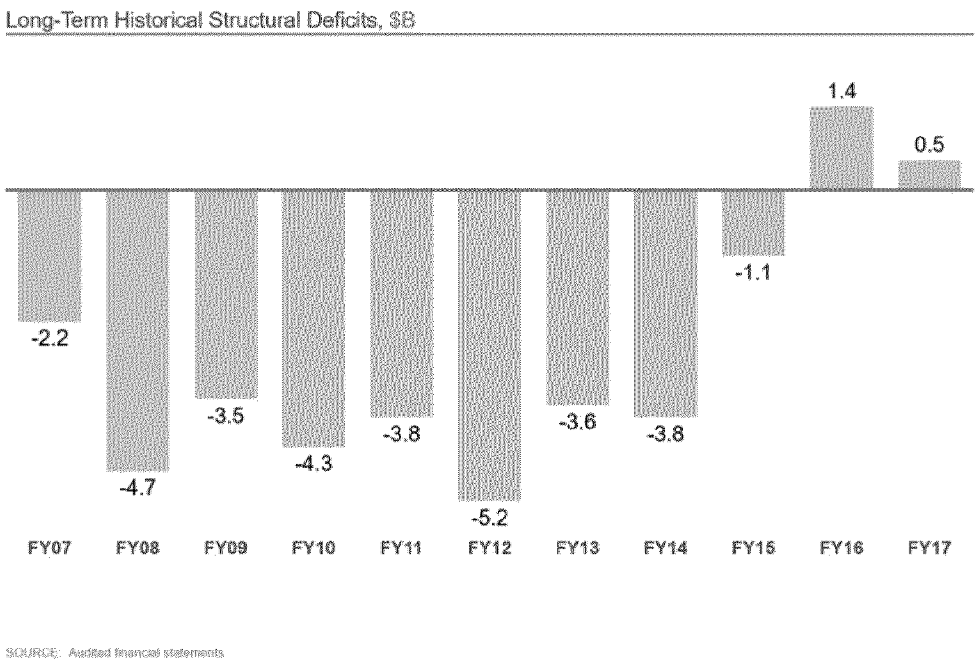
Government revenues suffered and became increasingly hard to forecast. Taken together with unmanageable and unconnected systems of accounting across government entities, as well as delayed financial audits, fiscal discipline eroded. To make up for this recurring and growing budgetary shortfall, the Commonwealth turned to debt markets. Puerto Rico bonds found themselves in every corner of the U.S. bond market and, as investor appetite began to wane, the Government turned to securing new debt by conditionally pledging various revenue streams. The result was a highly complex financial structure that limited transparency as well as financial accountability and management.

When the financial crisis hit in 2008, Puerto Rico's economy was already in a fragile fiscal and financial position. Since then, the economy has continued to worsen. Puerto Rico has seen its gross national product (GNP) shrink by 17%, labor force participation fell to a record low of 38%, and population decline by 15%.[1] Puerto Rico is much poorer relative to the mainland U.S. today than it was in 1970.

Chapter 2. Context for PROMESA and the creation of the Oversight Board

In the context of these long-term economic and demographic trends, government spending lacked transparency and did not adjust to the new reality. As a result, before the establishment of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), the Government was running large, long-term structural deficits (*Exhibit 5*).

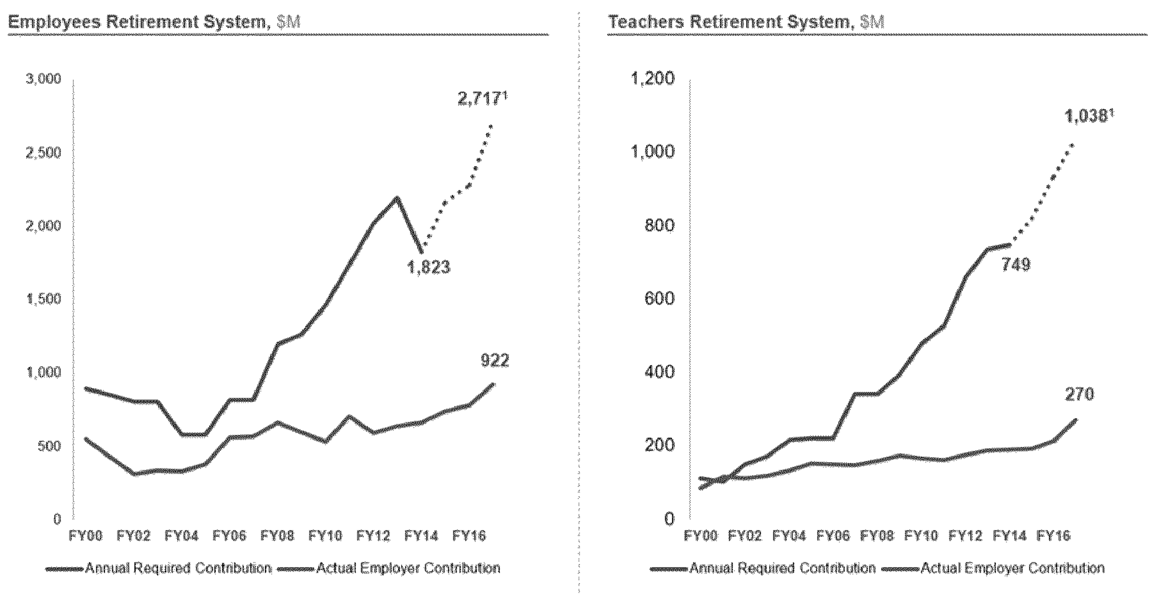
EXHIBIT 5: LONG-TERM STRUCTURAL DEFICITS



1 GNP and population decline represent the change between 2008 and 2020 per data from the World Bank Group's World Development Indicators. Labor force participation rate represents the most up-to-date International Labor Organization modeled estimates. World Bank, "World Development Indicators," 2021. (Accessed September 22, 2021)

Although some changes were made to reduce government spending in the years leading up to PROMESA, contributions to the pension systems were persistently far below necessary levels. As shown in *Exhibit 6*, over the past two decades, the actuarial annual required contributions to the pension systems were far greater than the actual employer contributions made. In fact, as early as 2007, system actuaries had stated that statutory contribution requirements were not sufficient to meet future plan needs. Despite that reality, while various steps were taken to improve the funded status of the Retirement Systems over time, these large annual financial and operational shortfalls directly led to the depletion of the fund assets to a point where the pension systems were no longer viable.

EXHIBIT 6: EMPLOYEES AND TEACHERS RETIREMENT SYSTEM REQUIRED AND ACTUAL CONTRIBUTION



1 In 2015 the systems began reporting under GASB 67, which did not require calculations of the ARC if the contributions were made on a statutory basis. Thus, the system actuaries no longer computed the ARC for the pension benefits. ARCs after 2014 have been estimated based on the Total Pension Liability, Fiduciary Net Position and Service Costs disclosed in the GASB 67 valuation reports.

By 2016, Puerto Rico was in the midst of an irreconcilable liquidity, fiscal, and economic crisis. The Commonwealth was being crushed under the weight of public debt that was larger than its GNP, it had started to default on its debt obligations, and it had lost access to external financing. All of the overspending drew down the Government's bank account balances, leading to dangerously low liquidity levels and revenue shortfalls. At one point, the Government's primary cash account, the Treasury Single Account (TSA), fell to as little as $15 million. Even worse, these calamitous financial circumstances threatened to create a humanitarian crisis for the over 3 million residents living on Island. As the U.S. Secretary of the Treasury at the time observed, the Commonwealth's ability to provide basic healthcare, legal, and education services was in serious doubt. No multi-year coordinated strategy existed to restore growth and opportunity to the people of Puerto Rico.

2.1 Enactment of PROMESA

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), 48 U.S.C. § 2101 et seq., to work toward a remedy to the ongoing fiscal and humanitarian crisis in Puerto Rico. The goal of PROMESA is to meet Puerto Rico's immediate need to provide its residents effective services, to formulate a debt restructuring,

and to implement fiscal and structural reforms leading to a sustainable economy, fiscal responsibility, and market access.

PROMESA establishes two primary mechanisms for restoring fiscal responsibility. First, Titles I, II, IV, and V of PROMESA create the Financial Oversight and Management Board (Oversight Board) for Puerto Rico and provide it powers and duties governing the review and certification of multi-year fiscal plans, annual budgets, major contracts and strategic infrastructure projects. Second, Titles III and VI of PROMESA provide for debt restructurings, similar to bankruptcy cases and out-of-court restructurings, respectively, for Puerto Rico and its instrumentalities. By incorporating many provisions of Title 11 of the United States Code (the "Bankruptcy Code") into Title III of PROMESA, which provides for restructurings similar to restructurings under chapters 9 and 11 of the Bankruptcy Code, the statute also protects the debtors from creditor debt-enforcement actions that otherwise could prematurely extract billions of dollars from the Commonwealth and inflict irreparable damage on Puerto Rico's economy. The statute includes unique attributes, such as an automatic stay on debt that was triggered once the bill was signed into law. The Oversight Board is the sole representative of any debtor entity in a Title III case, with the exclusive authority to propose a Plan of Adjustment. PROMESA Title VI provides an alternate, out-of-court restructuring process conditioned on voting thresholds.

It should be noted that the Oversight Board is an independent entity within the territorial Government, rather than a department, agency, establishment, or instrumentality of the Federal Government. It is statutorily charged with restoring fiscal responsibility and market access to the Commonwealth.

2.2 Fiscal plans, budgets, and other Oversight Board tools

Under PROMESA, covered territorial instrumentalities/entities can be required by the Oversight Board to prepare and submit annual fiscal plans, who then reviews and either rejects or certifies them. The Oversight Board certifies fiscal plans and budgets to achieve PROMESA's goals to provide a method to achieve fiscal responsibility and access to the capital markets. The Oversight Board then tracks Government implementation of the fiscal plans to ensure compliance.

The certification and timely implementation of fiscal plans and balanced budgets are invaluable tools to achieve fiscal responsibility and restore Puerto Rico's access to the capital markets. Among other things, the certified fiscal plans and budget provide for estimates of revenues and expenditures in conformance with agreed accounting standards; funds essential public services; provides adequate funding for public pension systems; provides for the elimination of structural deficits; improves fiscal governance, accountability, and internal controls; and provides for capital expenditures and investments necessary to promote economic growth. Fiscal plans provide a route to direct the economy and finances of the Government of Puerto Rico towards economic growth and fiscal accountability. This is crucial for Puerto Rico to avoid repeating the mistakes of the past.

To ensure that covered entities deliver against fiscal plan measures, the Oversight Board has a variety of potential tools available, including:

- **Setting budgets:** The Oversight Board can certify the budget of the Government and its instrumentalities by type of expense and fund type. The Oversight Board has required more detailed budgets to prevent certain expenditures inconsistent with the current fiscal plan, understand consultant spending and enable measurements and monitoring of federal consent decrees or requirements (e.g., special education, juvenile detention).
- **Budget and fiscal plan compliance:** Official letters are written by the Oversight Board to the Office of the Chief Financial Officer (OCFO) and agencies if something is not in compliance of certified budget and fiscal plans with the requirement to take the necessary corrective

actions, pursuant to the requirements as set forth in PROMESA (e.g., letters pursuant to Sections 203 and 204 of PROMESA).

- **Approval and review of contracts, legislation, executive orders, administrative orders, rules, and regulations:** The Oversight Board must review and approve all contracts with a value of $10 million or more to ensure Fiscal Plan compliance and has the authority to refuse contracts and suggest the terms the new contract is required to meet. In addition, the Oversight Board may select to review contracts below the $10 million threshold for these purposes, on a random basis or at its own discretion.
- **Recommendations:** Per Section 205 of PROMESA, the Oversight Board drafts letters to the U.S. President and Congressional leadership, outlining recommendations for fiscal and financial management practice improvements, requiring a response from the Governor.
- **Public hearings:** The Oversight Board can hold hearings with agency representatives to publicly discuss progress on efficiency measures and related matters (i.e., use of reapportionments, budget requests). In prior years, the Board has convened several public hearings to bring attention to core issues related to Government reform.
- **Implementation tracking with monthly and quarterly reporting:** Agencies receive a template that they must use to report on headcount, Key Performance Indicators (KPIs), and milestone implementation actions, among other requirements. Monthly reports are drafted evaluating implementation progress and budget to actual analysis.
- **Working group meetings:** Agencies/reforms meet with implementation team with prepared materials, answer questions and requests. Often, Oversight Board may invite the Secretaries and Executive Directors of agencies to present status of implementation of efficiency measures during such working group meetings.
- **Stakeholder Engagement:** The Oversight Board undertakes stakeholder engagement efforts throughout the year with members of the Government, private sector, and nonprofit sector of the Island. These efforts help the Oversight Board better understand stakeholders' opinions, concerns, and values. This allows the Oversight Board to incorporate stakeholder input into PROMESA plans and processes. Stakeholders' efforts include meetings, webinars, workshops, and public panel discussions.
- **Policy Research and Data Analysis:** The Oversight Board conducts research, public policy analysis, and program evaluation to help bring more informed policymaking to Puerto Rico. It also presents policy ideas, reform proposals, and data analysis to support the public debate about what changes Puerto Rico needs to prosper.[2]
- **Publication of documents:** The Oversight Board can publish any materials submitted to them by the Commonwealth Government.

2.3 Conditions for termination of the Oversight Board

The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past five years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA promptly, so that fiscal controls, fiscal sustainability, and economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA, that define when the Oversight Board can be

2 Financial Oversight and Management Board of Puerto Rico, Research and Public Policy Department

dissolved, were incorporated into the federal law to ensure the board disappeared, for good, once Puerto Rico's financial outlook stabilized and better financial management processes have been put in place in the territorial government.

Section 209 of PROMESA (Termination of the Oversight Board) states the following:

> *An Oversight Board shall terminate upon certification by the Oversight Board that:*
>
> *1) the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
>
> *2) for at least 4 consecutive fiscal years--*
>
> *A. the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and*
>
> *B. the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.*

EXHIBIT 7: REQUIREMENTS FOR THE TERMINATION OF THE OVERSIGHT BOARD

Category	Details	
1. Adequate access to credit markets at reasonable interest rates	Complete Sustainable Debt Restructuring	• Exchanged / new bonds trading well in the public markets • Evidence of demand for Puerto Rico bonds at reasonable spreads to market indices
	Debt Management Policy	• Implement and enforce a debt management policy consistent with the Commonwealth PoA • Present the policy to the Oversight Board for approval
	OCFO	• Enact an OCFO with full authorities outlined in the Fiscal Plan
2(A). The territorial government develops its budgets in accordance with modified accrual accounting standards for at least 4 consecutive fiscal years	Modified Accrual budget	• Develop Territorial Government budgets on modified accrual, not cash basis • Publish policy on modified accrual to support Oversight Board's certification of compliance
	Revenue / Expenses	• Changes in revenues/expenditures should be monitored against the forecast throughout the year and a timeline should be developed to make adjustments
	Payroll Systems	• Integrate disparate payroll systems into one central accounting and budget system, improving ability to control and limit personnel spending
	Accounts Payable	• Maintain an accounts payable ledger
	Purchase Orders	• Registration of purchase orders, professional serviced contracts, prior to service being supplied and budgeted in accordance with modified accrual
	Other Funds	• Funding sources excluded from the General Fund must be budgeted/evaluated by OMB and the Legislature, especially those that are comingled in TSA
2(B). Ensure expenses do not exceed revenues for at least 4 consecutive fiscal years, in accordance with modified accrual accounting standards	Timely Financial Reporting	• Complete all past due audited financials (ACFRs) • Establish procedures for the routine issuance of audited financials (ACFRs within 180 days)
	Accounting	• Establish a monthly closing and bank reconciliations • Perform required activities to record cash transactions, A/P recording, budget transfers and month end close adjustments
	Systems	• Up-to-date systemwide financial information system • Integration between various accounting systems to shift from manual integration to using system capabilities • Ensure the OCFO has visibility into all spending throughout the Commonwealth • Real time spend reporting and review by leadership
	Controls	• Adequate real time spending controls • Standardize Government-wide Financial accounting processes removing inconsistent adoption by agencies and public corporations • Implement change management to achieve closing cadence

The Oversight Board is working tirelessly to help the Government move quickly towards the accomplishment of all these requirements.

This fiscal plan introduces the Financial Management Agenda, a plan of action designed to implement and institutionalize the reforms necessary for the Oversight Board's termination and Puerto Rico's fiscal sustainability and economic renewal.

The Financial Management Agenda includes 12 initiatives. Two of them, Office of the Chief Financial Officer and CSR, lay the foundation for sound, sustained financial management. Four initiatives are central to meeting the conditions for terminating the Oversight Board: Timely Audited Financial Statements, Debt Management Policy, Budgeting Best Practices, and Federal Funds Management. The remaining six initiatives support other aspects of financial management improvement. Among them are procurement reform and cash and bank account management.

2.3.1 Progress on requirement #1: Adequate access to credit markets at reasonable interest rates

Sustainable debt restructuring

The Oversight Board has and is following a "once and done" approach to the restructurings, to ensure Puerto Rico will not be insolvent again. Together with the Government of Puerto Rico, the Oversight Board has made substantial progress in adjusting Puerto Rico's debt, the largest debt restructuring in the history of the municipal bond market. The confirmed PoA reduces the outstanding Commonwealths debt and other claims by almost 80%, from $33 billion of existing claims to $7.4 billion in new debt. In addition, the Commonwealth's total debt service payments (including COFINA senior bonds) have been reduced by more than 60% to date, from $90 billion to $34 billion, saving Puerto Rico almost $60 billion in debt service payments.

In May 2017, the Puerto Rico Government and the Government Development Bank (GDB) signed a Restructuring Support Agreement (RSA) with a significant portion of GDB creditors to restructure GDB's debt under PROMESA's Title IV. The RSA, as amended in April 2018, reduced about $5 billion of debt to about $3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Puerto Rico Government. This restructuring cushioned municipalities by offsetting the loans they owed to the GDB by the full amount of their deposits at GDB.

In February 2019, the U.S. District Court approved the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by $6 billion, from $18 billion to $12 billion. Furthermore, it reduced debt service payments by 32%, saving the people of Puerto Rico approximately $17.5 billion that will now be available to support the financial needs of the Commonwealth.

In August 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to a consensual modification of about $1 billion of outstanding loans under PROMESA's Section 207. This agreement lowers PRASA's debt service payments on the U.S. Government program loans by about $380 million over the next 10 years and eliminates approximately $1 billion in guaranty claims against the Puerto Rico Government. Additionally, it provides PRASA with access to $400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that

must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act 106 Defined Contribution program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act 106 accounts outside of Government control, and providing $2,600 to the Act 106 accounts of active Act 1 / Act 447 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.[3]

Key to the sustainability of any debt restructuring is the growth of the Puerto Rico economy. The Oversight Board has stressed for the past five years that returning to economic growth requires structural reforms to enhance the reliability of power; improve educational outcomes, labor market participation and labor productivity; enhance the ease of doing business on the Island; and generate more effective returns on capital investments and infrastructure. All of this aims to strengthen Puerto Rico's competitiveness in the global marketplace, attract new private capital, create jobs, and ultimately improve life for residents of the Island.

Timely financial reporting

The requirement related to timely financial reporting includes expectations that the Government publish past due audited financials and begins issuing audited financial statements on a best practice basis (e.g., issue audited financial statements within six months after the fiscal year ends).

The Government of Puerto Rico has yet to produce long past due Annual Comprehensive Financial Report (ACFRs) for FY2019-FY2020. The Oversight Board has continuously encouraged the Government to finalize and publish its past due audited financial statements, including spending time at two recent public board meetings on the topic and providing increased funding for required personnel at Hacienda. The Commonwealth published fiscal year 2017 audited financial statements on August 31, 2020, taking more than 1,158 days (~38 months) to issuance. The Commonwealth published fiscal year 2018 audited financial statements on June 30, 2021, taking more than 1,096 days (~36 months) to issuance. According to a study by the Governmental Accounting Standards Board (GASB), state governments issued their annual audited financial reports (ACFRs) on average 189 days after fiscal year-end during 2012-2014 and 199 days during 2015-2017.[4] Best practice calls for annual comprehensive financial reports (ACFRs) to be made public approximately 180 days or 6 months after the close of the fiscal year. Some states, like Michigan, have taken less than 100 days to release their ACFRs.

To achieve timely financial reporting the Government must, among other things, provide a detailed timeline and implementation plan, positioning Hacienda to successfully oversee the publication of the ACFRs, and signing a multi-year master audit contract. Perhaps most importantly, the Government must transition to implementing monthly closing procedures over its books and records and implement strict monitoring over the process with consequences for agencies that fall behind. Without implementing these changes, ACFR issuance will continue to be delayed and unpredictable.

As seen in *Exhibit 8*, the Government is behind on meeting many of these requirements, but with steadfast political will and leadership, the Oversight Board is convinced that these objectives can

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3 Sixth modified eighth amended PoA for the Commonwealth of Puerto Rico. (Accessed January 26, 2022)

4 Financial Oversight and Management Board of Puerto Rico, Research and Public Policy Department reporting

be reached, past due ACFRs can be issued within the next two years, and a system can be put in place that assures continued timely issuance as expected by the credit markets.

2.3.2 Progress on requirement #2: Four years of budgets developed with modified accrual accounting principles and expenditures which have not exceeded revenues

Four years of developing budgets in line with modified accrual accounting standards

The territorial Government, which includes all covered instrumentalities, is expected to develop and implement budgets in accordance with modified accrual accounting standards for four consecutive years, according to accounting practices recommended by the GASB for municipal financial statements, including by publishing ACFRs. There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending, help Puerto Rico avoid overspending, and present an accurate financial picture to Government managers, taxpayers and other stakeholders. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline on the city.

Four years of balanced budgets according to accrual-based accounting method

Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all of its expenditures in a given year. This lack of budgetary control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, to cause deficits and force borrowing, and resulted in the situation the Government faces today.

The key principles that will need to be met for the territorial Government to achieve this requirement are the formulation of an accrual-based budget, better monitoring of revenue and expenses, integration of the payroll systems, maintenance of an accounts payable ledger, and registration of purchase orders and budgeting for all other funds, not just the General Fund. In accordance with the definition of territorial government in law, these principles will need to be met for all covered instrumentalities, unless the Oversight Board exempts a covered instrumentality from coverage under the requirement.

To fully implement modified accrual budgeting, the Government would need to adopt policies and train employees to record expenses, make sure adjusting entries are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. Additionally, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Financial Management Agenda provides direction for the Government adopt best practices that will help ensure balanced budgets, such as consensus revenue forecasting and regular budget monitoring.

The central Government and the other covered instrumentalities have unfortunately not yet demonstrated meaningful progress in many of the key requirements for the termination of the Oversight Board. As shown in *Exhibit 8*, rapid progress will be needed across a number of dimensions to meet the key requirements under PROMESA.

EXHIBIT 8: PROGRESS TOWARDS ACHIEVING KEY REQUIREMENTS FOR THE TERMINATION OF THE OVERSIGHT BOARD

● Not started ○ Some Progress ● Completed

Category	Details		Current Progress
Complete Sustainable Debt Restructuring	Exchanged / New Debt	• Exchanged / new bonds trading well in the public markets	○
	Muni bond market / buyers	• Interest from traditional, institutional municipal bond buyers	●
	Investors	• Evidence investors ready to invest in Puerto Rico again	●
	Debt Management Policy	• Prepare a written debt management policy as required by the CW PoA • Present the debt management policy to the Oversight Board for approval	○
Timely Financial Reporting	Timeline and Action Plan	• Provide detailed timeline and implementation plan for issuance financial statements	○
	Financial reporting division	• Adequately position Hacienda's financial reporting division to oversee completion of all financial reporting, including component units	○
	Multiyear master audit contract	• Secure multi-year contracts with auditors and other essential contractors in conformance with best practices	●
	Implement monthly closing procedures	• Short-term: Implement / monitor a rigorous process for circular letters, administrative determinations, procedures, and regulations (manual closings) • Medium-term: Implement ERP system (quarterly closing procedure) • Longer-term: ERP system fully implemented (monthly closing procedures)	○
	Strict monitoring and publish delays	• Set up strict monitoring and escalation procedures with consequences and published schedules noting agency and component unit delays	●
Budgets in accordance with modified accrual accounting standards	Modified Accrual Budgeting	• Adopt policies and train employees to book budget and book expenses • Adjusting entries are communicated and coordinated across agencies • Accruals and interagency reconciliations automated	●
	Revenue / Expenses	• Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes • Detailed resolution certifications and expense system registration	○
	Payroll Systems	• Appropriations for termination of payroll accruals • Integrate systemwide payroll system into a financial reporting system	○
	Accounts Payable	• Maintain government wide monthly accounts payable procedures • Automate process and journal entries	○
	Purchase Orders	• Book encumbrances for entire year when contract is approved • Multi-year contract encumbered at the beginning of subsequent years	●
	Other Funds	• Consolidate as many special revenue funds into the General fund as possible; better maintained through annual General Fund appropriation procedures • Track and record all expenses and standardize chart of accounts	●
Implementing a balanced budget	Payroll spending	• Connect time and expense to payroll systems	○
	Closing of books	• Reconcile bank balances and monies held outside of the TSA • Issue consistent systemwide guidance	●
	Real time spending reports	• Perform quarterly budget to actual review and forecast adjustment by senior leadership • Issue public reporting and strategic guidance to stay within means	○
	Visibility into all funds	• Gain visibility into special revenue funds and federal funds • Require reporting and sweep back unused general fund appropriations	●
	Financial accounting systems	• Integrate financial systems • Ensure reporting is consistent across all agencies	●

Chapter 3. Fiscal Plan updates due to natural disasters and emergencies

In recent years, the people of Puerto Rico have endured a series of natural disasters and emergencies without precedent in modern history.

On September 6, 2017 and September 20, 2017, respectively, Hurricanes Irma and Maria struck Puerto Rico, causing unprecedented humanitarian, economic, and infrastructure-related damages and upending the daily lives of Puerto Rico's over three million residents. Thousands of residents were left homeless, basic utilities were completely shut down, and schools, hospitals, and businesses were destroyed. Tens of thousands of local residents fled the Island. The Federal Government's response has become one of the largest and most complex disaster relief efforts in U.S. history.

The damage inflicted on Puerto Rico by the Hurricanes required the March 2017 Fiscal Plan to be revised. Therefore, on October 31, 2017, the Oversight Board formally requested that the Government submit a revised Fiscal Plan for the Commonwealth and its instrumentalities based on the new post-hurricane realities. After months of hard work, engagement with stakeholders, and intense negotiations with the Government, the Oversight Board developed and certified the April 2018 Fiscal Plan to reflect the post-hurricane environment. This Fiscal Plan also provided for the implementation of incremental structural reforms, in particular focusing on improving the competitiveness of the local labor market.

As a result of Government and Oversight Board discussions concerning the necessary legislative actions to deregulate and make the private sector labor market more competitive, the Oversight Board certified an updated Fiscal Plan in May 2018. This Fiscal Plan provided for a series of investments that would be contingent upon the successful implementation of key labor market reforms. Unfortunately, the lack of political will to enact this much needed private sector labor reform required the Oversight Board to update and certify another Fiscal Plan in June 2018 to reflect the removal of this element of structural reform from the plan and the growth forecasts. The October 2018 Fiscal Plan was subsequently certified to reflect actual revenue and expenditure numbers, refined healthcare projections based on actuarial estimates, new federal funding estimates, and changes in the Government's economic growth policy objectives.

The budgetary process under PROMESA requires the annually certified budget to be consistent with the certified Fiscal Plan. In light of the many variables in the forecasts, the Oversight Board has chosen to annually update and certify a Fiscal Plan for accuracy and to serve as the most updated information for the purposes of certifying an annual budget. As a result, prior to the adoption of the FY2020 Certified Budget, the Oversight Board certified the 2019 Fiscal Plan, which incorporated updates for new information and data from a wide variety of sources. It revised the macroeconomic and population forecast in light of slower disaster relief funding roll out, faster unwinding of the associated stimulus, and more recent federal and Puerto Rico economic statistics. It also updated the forecasted economic impact of structural reforms to reflect slower than expected implementation. Finally, it re-balanced spending across agencies to enable investments in police and public safety, healthcare, and education.

In December 2019, just after the Oversight Board and Government had launched the 2020 Fiscal Plan process, an earthquake registering at a magnitude of 4.7 on the Richter scale hit Puerto Rico. This earthquake represented one of 1,000 overall earthquakes of magnitude 3 or greater that would hit the Island over the next couple months, with six being over magnitude 5.5 and one being the most destructive in Puerto Rico's history. Hundreds of structures, including homes, local government institutions, small businesses, and houses of worship, have been damaged or destroyed by these devastating shocks.

In March 2020, on top of the Hurricanes and earthquakes, Puerto Rico confronted the COVID-19 pandemic, which created an unprecedented public health crisis. As of April 2020, the Island had officially confirmed 1,539 cases and 92 deaths.[5] To counter the spread of the disease, the Government instituted the closure of businesses and established a curfew. The Oversight Board quickly made available $787 million in funds for the Government, individuals, and businesses. These funds were used to provide: direct economic support payments to self-employed individuals and small businesses, bonuses to frontline workers (including, nurses, police officers, firefighters, emergency medical services personnel, among others), funding for medical supplies, support to municipalities, resources for PRDE to purchase equipment to facilitate distance learning, and coverage for other incremental expenditures, such as additional public safety investments, health services spending in corrections, and funding for UPR's COVID-19-related research and development.

5 Gobierno de Puerto Rico Departamento de Salud, "Informe de casos positivos COVID-19 (30 abril 2020)," 2020. (Accessed 8 April 2021)

Soon after, the U.S. Federal Government approved several pieces of legislation—including the Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)—providing ~$18 billion in federal funds to the Island[6]. This relief package funded direct income support for individuals through expanded unemployment insurance benefits and a broad economic impact payments program, provided financial assistance to small businesses, included additional resources for education, healthcare, nutrition, and housing assistance, delivered funds to support the local government, and supplied incremental funding to support strategic government services like transit and transportation, law enforcement, and justice.

It was in the midst of this unprecedented change to the economic and public health climate that the 2020 Fiscal Plan was certified. As with prior Fiscal Plans, it included updates for new information about government revenues, expenditures, and reform implementation efforts. It also included the projected impacts of the earthquakes and the COVID-19 pandemic. Given the pressures facing the Government in the context of the crisis, the Fiscal Plan provided a one year pause in incremental government efficiency savings expectations to allow the Government to focus on the implementation of needed efficiency and structural reforms. In light of the healthcare focus that the situation required, the 2020 Fiscal Plan included a full set of investments that aimed to strengthen the healthcare system in Puerto Rico, comprising capital expenses to enhance and expand health facilities across the Island, improve its digital infrastructure, and fund newly created programs designed to extend healthcare services coverage in public schools and rural areas. Finally, the 2020 Fiscal Plan also provided new investments to further bolster the education and public safety systems; funds to support municipal consolidations and to expand the technology sector and broadband access.

Roughly a year and a half after the certification of the 2020 Fiscal Plan, the U.S. mainland and Puerto Rico have seen several changes. The effects of the COVID-19 public health crisis have been far reaching and devastating – both as a humanitarian crisis and economically. As of March 2021, Puerto Rico had experienced 97,713 cases of COVID-19 and 2,113 deaths due to the disease.[7] The economy has suffered: as the risks of travel kept tourists at bay, hotel registrations fell by 95% from February to April 2020, and starting to recover in May 2020.[8] Unemployment in Puerto Rico reached ~460,000 individuals at its peak, two times the previous number of individuals unemployed.[9] The effects of this sudden constriction in household income was felt across the Island; retail sales plummeted in April 2020 to just 38% of February 2020 levels, the lowest since 2012.[10]

Fortunately, vaccinations became available on the Island at the end of December 2020. As of December 2021, Puerto Rico has a vaccination rate of 84% for people over the age of 12 fully vaccinated, and 71% of people of all ages.[11] The Island also received additional federal support, with the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA)[12] and American Rescue Plan (ARP) Act bringing around $7 and $18 billion,[13] respectively, in federal funding to be available for recovery efforts in 2021. Significantly, the ARP Act created new and permanent economic support programs for the Island: an expanded Earned Income Tax Credit (EITC) program, with up to $600 million in federal support and permanent expansion of

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6 This includes funds for Unemployment Insurance benefits, which are funded by both, the Federal Government and the regular local program funds

7 Gobierno de Puerto Rico Departamento de Salud, "Informe de casos positivos COVID-19 (31 marzo 2021)," 2021. (Accessed 12 April 2021)

8 Discover Puerto Rico, "Industry Update COVID-19 – May 1, 2020", 2020

9 Gobierno de Puerto Rico Departamento del Trabajo y Recursos Humanos, "Empleo y Desempleo en Puerto Rico," in Información del Mercado Laboral, 2021, and U.S. Bureau of Labor Statistics, "Employed persons by class of worker and part-time status", 2021

10 Banco de Desarrollo Económico para Puerto Rico, "Retail Sales," on Puerto Rico Economic Indicators, December 2020

11 The New York Times, Tracking Coronavirus in Puerto Rico: Latest Map and Case Count, 2021. (Accessed 15 December 2021)

12 Representing Divisions M and N of the Consolidated Appropriations Act, 2021 H. R. 133

13 These amounts include funding for Unemployment Insurance benefits, which are funded by both, the Federal Government and the regular local program funds

eligibility criteria of the Child Tax Credit (CTC). Both are projected to have permanent effects on income and growth, and the EITC expansion is expected to support timely realization of the human capital and welfare structural reform benefits. Finally, Puerto Rico saw a gubernatorial transition, with many agencies still working to return to normal while experiencing new leadership and staff.

Updates in the 2022 Fiscal Plan are limited in scope and do not revisit the broad range of forecasts and assumptions included in the 2021 Fiscal Plan. Specific updates include incorporating new information about the macroeconomic environment, increased federal funding for NAP, incorporating the impact of legislation passed by the Government of Puerto Rico expanding the EITC program, incremental Federal funding under the Infrastructure Investment and Jobs Act, and an increased Medicaid FMAP through early December 2021. The 2022 Fiscal Plan also incorporates terms of the confirmed PoA, detail on the use of funds from the Municipal Revenue Collection Center (CRIM, by its Spanish acronym), and on the status of PayGo payments. Finally, the Plan includes details on the LUMA transaction and costs related to the mobilization of certain previous PREPA employees to Commonwealth agencies as well as certain budgetary decisions and adjustments that were part of the FY2022 Budget.

Looking ahead, the Island is still in need of support as it recovers from the pandemic. The Government must center all efforts on making the necessary changes to how the Government operates and delivers government services, as well as taking steps to improve the conditions for investment in the economy in a post-COVID-19 world. Now, more than ever, it is essential that the Government focus all of its attention and capacity on implementation to better serve the people of Puerto Rico in need of efficient government services and to eliminate barriers to economic development and recovery from the unprecedented economic damage caused by this series of disasters.

PART II. Puerto Rico's path to fiscal and economic sustainability

Chapter 4. Macroeconomic and demographic trajectory

The 2022 Fiscal Plan includes an updated macroeconomic forecast reflecting the abrupt impact of the COVID-induced recession at the end of FY2020, followed by a rebound and recovery in FY2021 and expected to continue into FY2022.

The baseline economic outlook model, which forecasts real gross national product (GNP) growth, primarily relies on a comprehensive dataset of the Puerto Rican economy from 1965 to 2017. It includes dozens of variables that collectively describe the Puerto Rican economy (e.g., growth, population, capital stock, etc.), and is largely impacted by four major factors: (a) the pre-hurricane trendline of Puerto Rico, (b) impacts from the shocks of hurricanes, earthquakes, and COVID-19 on economic activity, employment and the capital stock, (c) the stimulative impact of federal and local relief assistance for hurricanes, earthquakes, and COVID-19 (discussed in *Section 4.2.3*), (d) the stimulative impact of incremental federal funds from the Infrastructure Investment and Jobs Act (*Section 4.3*) and (e) proposed government efficiency measures, investments, and structural reforms (discussed in *Part IV*).[14]

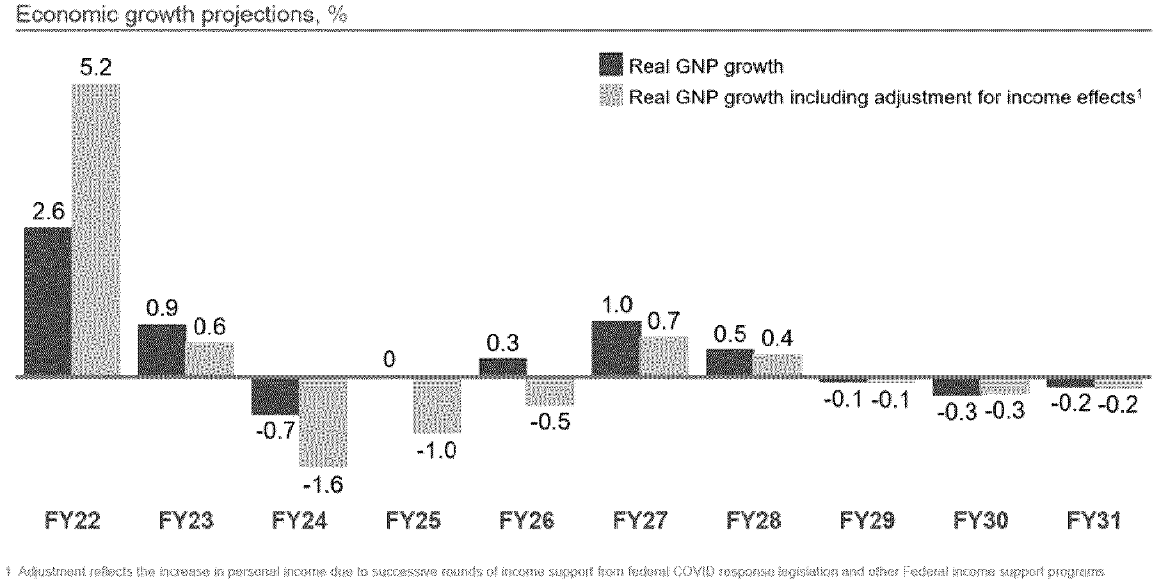
The COVID-19 pandemic has been a devastating and unprecedented health crisis for the Island, causing over 2,000 deaths and spikes in unemployment due to impacts on the tourism industry and Government lockdowns put in place to curb the spread of the disease. The shock of the pandemic on employment, as well as related local and federal stimulus funding, impacted Puerto Rico's economy in a variety of dimensions and directions. While economic activity was severely reduced, extraordinary unemployment insurance and other direct transfer programs more than offset the estimated income loss due to less activity. As a result, personal income has temporarily increased on a net basis.

The 2021 Fiscal Plan incorporated a real growth series that was adjusted for these short-term income effects for the purposes of forecasting tax receipts. The increased level of income is associated with higher levels of consumption and income tax collection in the short-term. The 2022 Fiscal Plan maintains this adjustment.

Exhibit 9 shows the real GNP growth rate projection and the adjusted growth rate with income effects, after the impact of measures, structural reforms, and disaster relief funding.

14 The forecast relies on a 60-year comprehensive dataset and applying statistical regressions to show the effects of multiple yet distinct inter-related components of past hurricanes, exogenous developments, and economic policies on growth and inflation

EXHIBIT 9: ECONOMIC GROWTH RATE AFTER MEASURES, STRUCTURAL REFORMS, AND DISASTER RELIEF FUNDING



Additionally, the 2022 Fiscal Plan includes the most recently published revision to the International Monetary Fund (IMF) Fiscal Affairs Department's estimates of capital depreciation. The IMF publishes estimates of capital depreciation of public and private capital stocks, as well as capital stocks from public private partnerships (PPPs), drawn from analyzing a comprehensive sample of around 170 countries starting from 1960 until 2017. The IMF now estimates a lower rate of depreciation, which in turn increases Puerto Rico's capital stock and consequent expected growth rate going forward. The updated estimates of capital depreciation were also included in the 2021 Fiscal Plan.

With the exception of FY2022 and FY2023, the 2022 Fiscal Plan uses the Congressional Budget Office's (CBO) July 2021 U.S. inflation projections, along with global forecasts of oil and food prices from the IMF's World Economic Outlook.

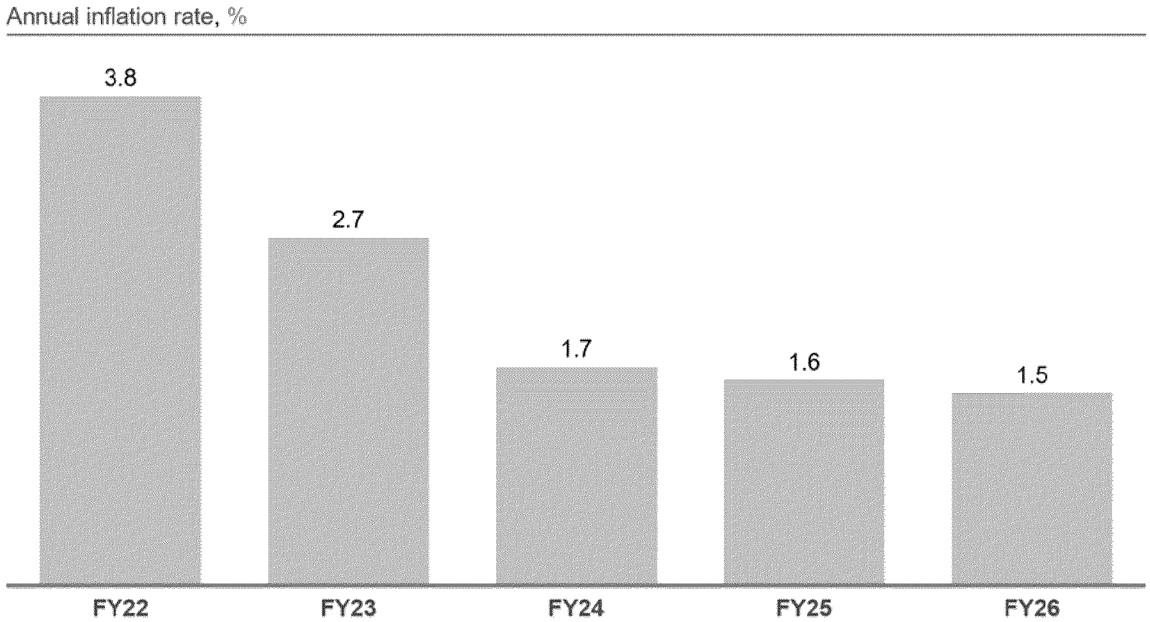
Over the first half of FY2022 there has been a sharp rise in both U.S. and Puerto Rico inflation rates, driven by a combination of global and idiosyncratic (U.S.) supply shocks. U.S. annual inflation rose from 2.6% in March 2021 to 7.0% in December,[15] while Puerto Rico annual inflation rose from 1.0% in March to 4.3% in November.[16]

As is the case in prior Fiscal Plans, Puerto Rico inflation is estimated as a function of unemployment and the output gap, also taking into account the impact of global forecasts of oil and food prices from the IMF's World Economic Outlook Bank. The model then incorporates a weighted average of U.S. mainland inflation and Puerto Rico's estimate as the model's inflation metric, to reflect imported inflation. Puerto Rico inflation projections are summarized in *Exhibit 10* and have been updated to reflect higher U.S. inflation estimates, which take into account the recent rise in mainland inflation.

15 U.S. Bureau of Labor Statistics, "December 2021 Consumer Price Index Summary," 2022

16 Puerto Rico Economic Development Bank citing U.S. Department of Labor and Human Resources, Consumer Price Index, 2021

EXHIBIT 10: ANNUAL PUERTO RICO INFLATION RATE



4.1 Impact of the global COVID-19 pandemic

The COVID-19 pandemic created economic dislocation around the world. For Puerto Rico, the economic shock from COVID-19 came on top of multiple prior shocks in the last four years. Hurricanes Irma and Maria struck with devastating impact in September 2017, and the southern part of the Island was hit by the strongest earthquakes that the Island had seen in decades at the end of 2019. With the onset of the pandemic, the economy of Puerto Rico virtually ground to a halt as the public health imperative for people to stay at home left all but the most essential workers unable to travel to their places of business. The economy responded to the vast amount of local and federal stimulus funding, and an economic recovery is now underway, though there is still significant uncertainty about the future of the global, U.S. mainland, and Puerto Rican economies.

The Oversight Board has consulted numerous data sources and expert economists in both Puerto Rico and the U.S. mainland to obtain the best insights possible into the current economic conditions and prospects for recovery. However, there is no precedent for COVID-19 in the historical dataset that informs the 2022 Fiscal Plan's macroeconomic model. As such, the Oversight Board recognizes that there is considerable uncertainty around the near-term economic outlook, as even today there remains a wide range of potential public health and economic outcomes for Puerto Rico, the nation, and the world. Notwithstanding this uncertainty, the Oversight Board has worked to develop a reasonable forecast of the path forward with the information and experience currently available.

4.1.1 Impact of COVID-19 on the U.S. economy

Consistent with past practice, the Oversight Board primarily relies on U.S. government economic forecasts to establish the general economic conditions within which the economy of Puerto Rico evolves. The 2022 Fiscal Plan uses the latest Congressional Budget Office forecasts for U.S. GDP growth and inflation published in July 2021 as key inputs to create the forecast for the economy

of Puerto Rico.[17] In the near term, CBO currently projects stronger U.S. economic growth than it did in February 2021. These estimates are based on the assumption that the U.S. real gross domestic product (GDP) would have reached pre-pandemic levels this past summer and employment levels will return to pre-pandemic levels by mid-2022, for three main reasons. First, recently enacted federal fiscal policies, such as the American Rescue Plan and extension of federally held student loan forbearance, are projected to boost output. Second, the economic effects of social distancing are forecasted to be smaller than previously expected in February. Third, CBO estimates of consumer spending are higher to account for the increased savings households were able to accumulate during the pandemic. CBO inflation projections are higher than in February as well. The revised U.S. growth forecast from CBO translates into higher forecasted growth and revenues for the Commonwealth, as U.S. real GDP growth is a major input for the macroeconomic projection used in the 2022 Fiscal Plan.

4.1.2 Specific impacts of COVID-19 on the economy of Puerto Rico

After incorporating U.S. mainland growth estimates, the 2022 Fiscal Plan factors in certain economic effects that are specific to Puerto Rico. The approach accounts for two primary factors, which are outlined below: (i) lost income from an enduring spike in unemployment, and (ii) the relative amount of income that will be replaced by extraordinary Federal Government support.

To determine the lost income due to COVID-19, the Oversight Board has analyzed available public and private sector forecasts of U.S. unemployment and data from the Government of Puerto Rico and the U.S. Department of Labor on initial unemployment claims.

To determine the lost income due to COVID-19, the Oversight Board has analyzed available public and private sector forecasts of U.S. unemployment and data from the Government of Puerto Rico and the U.S. Department of Labor on initial unemployment claims, which showed a sharp spike in unemployment in the second quarter of 2020, followed by a normalization to pre-pandemic levels over the course of 2021. In light of the economic hardship for the people of Puerto Rico, and the U.S. as a whole, the Federal and local governments have stepped in to provide much needed economic support for residents on the Island. The following sections describe how the 2022 Fiscal Plan treats the combined impact of ongoing disaster relief funding, as well as more recent economic support in light of COVID-19.

4.2 Federal and local relief spending for Hurricanes Maria and Irma, earthquakes, and the global COVID-19 pandemic

4.2.1 Disaster relief spending from the 2017 hurricanes

Disaster spending tends to have a short-term stimulative effect on an economy post-crisis, though not in the long term. In Puerto Rico, the level of committed public and private disaster relief spending is significant when compared to the overall size of the economy. Public and private disaster relief spending has and will continue to impact the economy in two ways:

- **Stimulative impact from post-hurricane disaster relief spending coming from aid packages equivalent to more than 100% of the Island's GNP.** This stimulus can come in multiple forms, such as construction companies hiring local, unemployed workers or workers from the mainland U.S. paying local withholding taxes and spending money for food and lodging.

[17] The CBO last published projections for U.S. long-term GDP growth in March 2021.

- **Expected reconstruction of the capital stock on the Island.** The 2022 Fiscal Plan factors in significant damage to capital stock that is repaired, in large part, by this extraordinary infusion of federal and private monies, contributing to growth in the long-term.

The 2022 Fiscal Plan projects that ~$84 billion of disaster relief funding in total, from federal and private sources, will be disbursed in the reconstruction effort over a period of 18 years (FY2018 to FY2035). It will be used for a mix of funding for individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), funding for the public (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of the Commonwealth's share of the cost of disaster relief funding (recipients often must match some portion of federal public assistance spend) (*Exhibit 11*).[18]

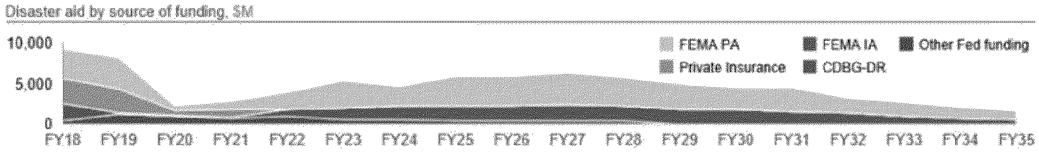
Of the total, ~$47 billion is estimated to come from the Federal Emergency Management Agency (FEMA) Disaster Relief Fund (DRF) for Public Assistance, Hazard Mitigation, Mission Assignments, and Individual Assistance. An estimated $7 billion will come from private and business insurance payouts, and $8 billion is related to other sources of federal funding.

The 2022 Fiscal Plan includes ~$20 billion from the federal Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program, of which ~$2.7 billion is estimated to be allocated to offset the Commonwealth and its associated entities' expected FEMA-related cost-share requirements.[19] This portion of CDBG-DR funding will go towards covering part of the ~10% cost-share burden on expenditures attributable to the Commonwealth, PREPA, PRASA, and HTA from FY2019 to FY2032. The 2022 Fiscal Plan allocates $4.2 billion for Puerto Rico's cost-match responsibility. After the CDBG-DR funds, out-of-pocket cost-share is reduced to $1.5 billion for Puerto Rico, of which $1 billion is attributable to the Commonwealth.

EXHIBIT 11: PROJECTED PRIVATE AND PUBLIC DISASTER RELIEF FUNDING ROLLOUT

	FY18, $M, %	FY19, $M, %	FY20, $M, %	FY21, $M, %	FY22, $M, %	FY23, $M, %	FY24, $M, %	FY25-FY35 $M, %	Total, $M	Total, %
FEMA Public Assistance, Hazard Mitigation, Mission Assignments¹	3,607	3,773	544	1,028	2,106	3,309	2,440	29,070	45,877	55%
	8%	8%	1%	2%	5%	7%	5%	63%		
FEMA Individual Assistance¹	2,050	241	145	52	50	50	-	-	2,587	3%
	79%	9%	6%	2%	2%	2%	0%	0%		
CDBG-DR	-	-	-	125	737	1,328	1,618	16,416	20,223	24%
	0%	0%	0%	1%	4%	7%	8%	81%		
Private insurance	3,001	2,895	606	936	-	-	-	-	7,437	9%
	40%	39%	8%	13%	0%	0%	0%	0%		
Other federal funding	509	1,237	1,014	704	1,058	632	624	1,963	7,740	9%
	7%	16%	13%	9%	14%	8%	8%	25%		
Total	9,168	8,146	2,308	2,844	3,950	5,318	4,681	47,449	83,865	100%
CDBG cost share	-	-	-	21	96	177	216	2,700		

Disaster aid by source of funding, $M



1 Includes federal assistance for 2019/2020 earthquakes

18 Puerto Rico's cost-match responsibility was estimated using FEMA-provided data, adjusted by category as necessary for waivers and exceptions

19 Estimate based on early assessment of CDBG-DR and CDBG-MIT Action Plans for Puerto Rico (with public data as of March 15, 2021), as well as patterns of cost share coverage from CDBG-DR in previous storms

The major sources of disaster relief funding are detailed below:

- **FEMA Disaster Relief Fund:** FEMA provides Individual Assistance to individuals and families who have sustained uncovered losses due to disasters. FEMA also provides Public Assistance to state and local governments and certain types of private not-for-profits for debris removal, emergency protective measures, and permanent repair to damaged or destroyed infrastructure. Through both its Public Assistance Program and Hazard Mitigation Grant Program, FEMA funds projects to reduce or eliminate long-term risks to people or property from future disasters.[20]

- **The U.S. Department of Housing and Urban Development (HUD) CDBG-DR:** HUD provides CDBG-DR funding that can be used for assistance to individuals, businesses, state agencies, non-profit organizations, and economic development agencies. Funds are to be used in the most impacted and distressed areas for disaster relief, long-term recovery, restoration of infrastructure, housing assistance, and economic revitalization. The 2022 Fiscal Plan uses Action Plans approved by HUD to estimate the allocation of these funds, with ~$10 billion for disaster relief related activities, ~$8 billion to be used towards mitigating risks and potential losses in the event of a future disaster and ~$2 billion expected to be used to repair the Island's electric infrastructure. The total ~$18 billion in disaster relief and mitigation funds include ~$2.7 billion to cover cost-share for the Commonwealth and its instrumentalities.[21]

- **Private insurance funding:** Large personal property and casualty losses have been incurred in the aftermath of Hurricanes Maria and Irma. An analysis of data from the Office of the Insurance Commissioner of Puerto Rico, adjusted for self-insured and other types of coverage, was used to determine the amount that has been paid out to individuals and businesses for major damages.

- **Other supplemental federal funding:** Additional federal funding has been appropriated to various agencies and projects in Puerto Rico following the hurricane. This money is directed at a wide range of recovery efforts, from reconstruction of damaged buildings (for example, funding to repair damage to Job Corps centers in Puerto Rico) to funding for health programs and environmental management (e.g., U.S. Department of Agriculture (USDA) funding to repair water systems in rural areas) to additional funds for the Nutritional Assistance Program (NAP).

Disaster rollout for FEMA funds has been projected by subcategory to account for differences in when funds are spent:

- Individual Assistance from FEMA was spent in the immediate aftermath of the storm

- Public Assistance Categories A & B and Mission Assignments are used for debris removal and emergency work, and therefore exhausted in the early years of the recovery

- FEMA Categories C-G and Hazard Mitigation are longer-term funding streams that are spread out over 18 years, based on the latest estimates regarding the time that it will take to finalize reconstruction

The 2021 Fiscal Plan incorporated data from the Central Office for Recovery, Reconstruction, and Resiliency (COR3) and Vivienda on disbursements of FEMA and CDBG-DR funds through the first half of FY2021. The 2022 Fiscal Plan incorporates the same data. The rollout of remaining FEMA funds is informed by the historical disbursement pace of FEMA funds in Puerto Rico, spending patterns in other jurisdictions impacted by major storms (e.g., Hurricane Katrina), and

20 The 2022 Fiscal Plan does not attribute economic impact to FEMA's Administrative funding, which is used for FEMA's personnel (primarily outside of Puerto Rico), travel, and other internal costs

21 As per the Puerto Rico Disaster Recovery Action Plan, April 2020, "the cost share matching requirements of many of these [FEMA] programs create a financial burden on subrecipients that will dramatically hinder the recovery process without supplemental funding. To substantially reduce this burden, PRDOH intends to leverage CDBG-DR to meet these matching fund requirements…"

the spend plans developed by major subrecipients (e.g., PREPA, PRASA) specifically for the use of FEMA public assistance funding received. In the case of CDBG-DR funds, they are assumed to be disbursed through FY2035, informed by Puerto Rico Department of Housing's latest projections, with program types as published in the latest available Action Plans.

The 2022 Fiscal Plan posits that, based on how disaster relief funds are spent, these funds will impact the economy in various ways: to build the capital stock of the Island through constructing and repairing buildings or utilities, to directly impact the economy through spurring consumption of goods and services on the Island, or to fund programs and services on the Island. The 2022 Fiscal Plan estimates a different rate of pass-through to the economy for each of these different types of funding as follows:[22]

- A 15.5% pass-through rate is assumed for funding that is used to construct and repair utilities, given the reliance on specialized labor and materials for such projects (e.g., FEMA Category F Public Assistance funding towards constructing public utilities). The rest of this funding flows to the Puerto Rico capital stock and therefore contributes to long-term growth.
- A 23.5% pass-through rate is used for funding that is employed to construct and repair residential, commercial, and school buildings given the ability to rely more on local labor and materials (e.g., repair to public facilities damaged by the storm). The rest of this funding flows to the Puerto Rico capital stock and therefore contributes to long-term growth.
- A 23.5% pass-through rate is assumed for funding that is directed towards programs and services (e.g., private insurance payments to reimburse personal auto expenditures), as this funding hits the Puerto Rico economy through the labor associated with importing and transporting. This type of spending does not contribute to the capital stock on the Island, and therefore does not contribute to long-term growth.
- A 100% pass-through rate is assumed for funding that is used directly and in full to replace income or stimulate spending on goods and services originating on the Island (e.g., disaster nutrition assistance). This type of spending does not contribute to the capital stock on the Island, and therefore does not contribute to long-term growth.
- CDBG-DR funds put toward cost-share are not passed-through to the economy. These funds are used towards the local share of FEMA projects whose value is already accounted for in the respective categories.

The 2022 Fiscal Plan also projects that $750 million in working capital will be made available to address the liquidity constraints associated with the reimbursement nature of disaster relief programs. This will help to accelerate FEMA-approved reconstruction projects, particularly for permanent projects.[23]

4.2.2 Federal and local economic support in response to the earthquakes

As shown in *Exhibit 11*, funding for the 2019 and 2020 earthquakes includes $947 million in Public Assistance funding, of which $440 million is for Category B – Protective Measures, $231 million is for Category E – Public Buildings, and $101 million is for Public Assistance Management Costs. The remaining amounts are divided between Hazard Mitigation ($167 million), Individual Assistance ($103 million), and Mission Assignments ($6 million). The 2022 Fiscal Plan applies a 23.5% pass-through rate on these funds as they are directed toward the reconstruction of public buildings and facilities (see *Section 4.2.1*). The earthquake-related federal funding is assumed to impact the economy from FY2021 through FY2023.

22 Estimated using local contracts for PREPA, residential construction and school construction. These contracts were estimated to have between 10% and 18% pass-through on the economy, respectively, which was then augmented by 5.5% average spend on transportation and logistics on construction projects, which rely on 100% domestic labor

23 The working capital facility is considered a use of the Commonwealth balance sheet, not a Fiscal Plan expense

4.2.3 Federal and local economic support in response to the COVID-19 pandemic

In response to the COVID-19 pandemic, both the Federal Government and Puerto Rico Government have launched major relief packages to contain and mitigate the spread of COVID-19, support residents and frontline workers, and help the Island's economy rebound.

There have been multiple rounds of federal assistance which have included direct assistance to individuals, families, and businesses, as well as funding provided to local governments to assist with pandemic response.

On March 18, 2020, the Families First Coronavirus Response Act was signed into law. The bill includes free COVID-19 testing for uninsured individuals, emergency paid sick leave, expanded family and medical leave programs, unemployment assistance, food aid, and federal funding for Medicaid.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The relief package allocated an estimated $2.2 trillion to battle the harmful effects of the COVID-19 pandemic. The package was the largest fiscal stimulus package in modern American history and aimed to financially support both governments and businesses, provide relief to individuals, and expand COVID-19 response measures, as well as build future resiliency. The law provided $150 billion of direct support to state and local governments. In addition, eligible individuals received a $1,200 direct payment, as well as an additional $500 for each dependent child, in each case subject to income phase-outs. The law also provided additional unemployment insurance benefits for individuals impacted by COVID-19, including incremental benefits of $600 per week through July 31, 2020 and a 13-week extension in the amount of time that an individual could collect benefits (from 26 to 39 weeks). On April 24, 2020, Congress passed the Paycheck Protection Program and Health Care Enhancement Act, which extended certain provisions of the CARES Act. This package provides an additional $482 billion for small businesses, healthcare providers, and expanded testing to address the COVID-19 pandemic.

On April 2, 2020, through collaboration with the Puerto Rico Government, the Oversight Board certified a $787 million emergency measures support package, which offered direct assistance to workers and businesses (see *Exhibit 12*). The package was funded through $500 million of incremental new spending (made available via a special appropriation), $131 million for education related materials through existing federally funded government contracts, and $157 million through a reapportionment within the FY2020 Commonwealth General Fund budget.

EXHIBIT 12: PUERTO RICO EMERGENCY MEASURES SUPPORT PACKAGE PROVISIONS

	Category	Description	Total allocated, $M	Disbursed as of Jan 2022, $M
Direct Payment to Self-Employed	Self-Employed	$500 one-time cash payment for approximately 200,000 self-employed individuals	100.0	94.5
Direct payment to small businesses	Small businesses	$1,500 one-time cash payment for approximately 40,000 small businesses	60.0	59.8
Bonus for Medical and Support Staff	Public Nurses	$4,000 bonus per nurse (not including 272 Dept. of Correctional Health nurses)	23.2	15.0
	Private Sector Nurses	Bonus for private sector nurses	73.4	73.3
	Professional services nurses	Bonus for professional services nurses	22.6	13.8
	Dept of Correctional Health nurses	$4,000 bonus per nurse	1.1	1.0
	Technicians	$2,500 bonus for 600 technicians	1.5	0.1
	Others	Public sector pharmacists (116), medical technologists (3,834), Residents-MD (605)	4.8	4.2
Bonus for Certain DPS Employees	EMS personnel	581 staff	2.0	1.7
	Police Officers	11,650 front office roles (does not include 600 currently reported under leave of absence)	46.6	45.2
	Firefighters	1,455 front office roles (does not include 65 reported under leave of absence)	5.1	5.1
	Emergency Management	112 front office roles (does not include 12 reported under leave of absence)	0.4	0.4
	911 service	154 front office roles (does not include 2 reported under leave of absence)	0.5	0.5
	Special Investigations Unit	74 front office roles	0.3	0.1
	Forensics	220 front office roles	0.8	0.8
	Municipal police	$4,000 bonus for 3,428 officers	11.8	11.2
	Municipal firefighters	$3,500 bonus for 50 officers	0.4	0.3
Bonus for Court Staff	Court staff on duty	$1,000 bonus for 400 officers	0.8	0.8
Bonus for Hacienda Internal Revenue Agents	Internal revenue agents on duty	$2,000 bonus for 250 agents	0.5	0.5
Materials for the Department of Education	Dept. of Education teachers, students, and directors	Purchase of tablets, software, training for approximately 325,000 individuals	124.3	61.0
		Materials for 159,330 individuals will be paid by the U.S. Department of Education through two contracts	130.6	129.2
Hospital Investments	Public Hospitals	$15M per month for two months for medical supplies not directly related to COVID-19	30.0	16.0
Public Safety Investments	Department of Public Safety	$20M for equipment and capital expenditures	20.0	9.3
Support to the Municipalities	Municipalities	$50M per month for two months based on population by municipality (3-tier division)	100.0	100.0
Bonus for Corrections Employees	Department of Corrections	$3,500 bonus per front-line Corrections staff	16.8	15.0
	Correctional Health	$3,500 bonus per front-line Correctional Health staff (non-nurses)	0.5	0.4
HTA	Cost of moratorium on tolls	Loss of outstanding $3M monthly receipts for two months	6.0	0.6
UPR	UPR COVID-19 R&D	Funding for COVID-19-related research and development in UPR	1.7	0.2
Reserve	Reserve	Reserve (will be transferred to first responders and healthcare agencies on an as-needed basis to cover any deficiency in the distribution of the cash incentives.)	2.0	1.8
Total Local Funding			787.7	661.8

These funds have played an essential role in helping to mitigate the unprecedented economic damage from the sudden economic shock caused by the pandemic.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA) was signed into law. The law provided an additional $900 billion in COVID-19 relief. The CRRSA Act allocated no additional funds to states and territories, but it extended the deadline to use Coronavirus Relief Funds, Title V of the CARES Act, by one year. It also provided economic support to businesses and funding to promote testing, contact tracing and vaccine distribution. The 2022 Fiscal Plan includes an estimate of what portion of these federal funds are estimated to be allocated to Puerto Rico.

On March 11, 2021, the American Rescue Plan (ARP) Act of 2021 was signed into law. This COVID-19 relief package allocates $1.9 trillion to provide direct relief to Americans, reopen schools, and support a national vaccination program. Major components of the bill include:

- **Economic Impact Payments (EIP):** ARP provided eligible individuals with a $1,400 direct payment, as well as an additional $1,400 for each dependent, in each case subject to income phase-outs. For example, married filers with two dependents that qualified for the program received $5,600. It was estimated that more than 85% of households would receive a direct payment. Additionally, the definition of qualifying dependents expanded to include full-time students younger than 24 as well as any adult dependents such as adults with disabilities or grandparents.

- **Expanded Unemployment Benefits:** The law extended expanded unemployment benefits through September 6, 2021 to continue addressing unemployment caused by the COVID-19 public health emergency. This extension included the Pandemic Unemployment Assistance (PUA), the Federal Pandemic Unemployment Compensation (FPUC), and the Pandemic Emergency Unemployment Compensation (PEUC). Furthermore, the law extended

the Families First Coronavirus Response Act (FFCRA) unemployment provisions that ensure full federal financing of extended benefits through September 6, 2021.

- **Child Tax Credit (CTC):** The bill permanently removes the provision that requires a three (3) child minimum for Puerto Rico residents to claim the Child Tax Credit and removes the phase-in for the credit for calendar year 2021. The Child Tax Credit typically begins phasing in for incomes above $2,500, at a rate of 15% per dollar above the $2,500 threshold until the maximum credit is reached. When filing federal taxes for tax year 2021, Puerto Rico residents below the phase-out rate will receive the full Child Tax Credit for all children. Additionally, and for tax year 2021 only, eligible filers will receive an increased Child Tax Credit of $3,600 per child under six (6) years of age and a Child Tax Credit of $3,000 per child six (6) years of age through 17 years of age. For example, married filers below the phase-out rate with children aged four (4) and twelve (12) will receive $6,600. When filing federal taxes for tax year 2022, the Child Tax Credit for Puerto Rico families is reduced back to $1,400 per child, but the three-child minimum requirement has been permanently lifted. This means that when filing federal taxes for tax year 2022, the same family as before (given the family has enough income to be above the phase-in level), now with children aged five (5) and thirteen (13) will receive $2,800. Under the previous regulations, that family would not have been eligible for any Child Tax Credit.

- **Earned Income Tax Credit (EITC):** In the mainland, the ARP significantly increases the maximum credit amount for previously excluded adults without children for tax year 2021. For Puerto Rico, the law includes up to $600 million in annual federal fund matching to incentivize the Government to permanently expand the local EITC program. That amount would be delivered in the form of a reimbursable grant equivalent to three times (3X) the local spending, and indexed for U.S. inflation after the first year, thereby drastically expanding the size of the EITC program (which was previously supported by only $200 million per year in local Government funds) on Island.

- **Elementary and Secondary School Emergency Relief Fund (ESSER):** The law expanded upon the education provisions outlined in the CRRSAA and provides additional funding to elementary and secondary education, which remains available for obligation through September 30, 2023. The use of these funds remains flexible, meaning State Education Agencies (SEAs) and Local Education Agencies (LEAs) can use them to address a variety of needs. These include, but are not limited to, addressing learning loss, maintaining social distancing, hiring support staff, and enhancing ventilation systems. In April 2021 the U.S. Department of Education released additional formal guidance on how to calculate the Maintenance of Effort (MOE) requirements associated with this fund and the Governor's Emergency Education Relief (GEER) Fund, also provided under the CARES and CRRSA Acts. The guidance explains how states and territories should determine what level of state spending on elementary, secondary, and higher education is required in order to comply with the MOE requirements in these relief packages, as well as procedures for seeking waivers. The Commonwealth has analyzed this guidance as well as its implications on the UPR and PRDE funding provided for FY2022 and formally requested a full waiver of the MOE requirements on September 1, 2021.

- **State and Local Aid:** The law includes $360 billion in direct support to state and local governments. Puerto Rico's share of funds are split between the territory, counties, metropolitan cities, and towns with fewer than 50,000 people. These funds will be used to cover costs incurred by December 31, 2024, and the funds allow Puerto Rico flexibility to respond to and address local needs. On August 3, 2021, Governor Pierluisi released a spending plan for the $2.47 billion Puerto Rico received through the State Fiscal Recovery Fund created under the ARP Act. The spending focused on economic development ($520 million), quality of life ($570 million), government excellence ($555 million) and set aside $600 million for future projects and $225 million for administrative expenses.

The 2022 Fiscal Plan includes an estimate, shown in *Exhibit 13* below, of what portion of federal funds included in the aforementioned bills will be allocated to Puerto Rico, based on a variety of sources. The lead federal agencies for each ARP Act program continue to release the terms and conditions that provide additional guidance on how the funds will be allocated as well as eligible uses. The Oversight Board expects the Government to apply this guidance to maximize the impact of these federal funds on Island and will work to identify current or incremental expenditures that could be covered by extraordinary federal funds. Given the terms and conditions and allocations of these funds are not finalized, the figures in the exhibit are subject to change.

EXHIBIT 13: ESTIMATED COVID-19-RELATED FEDERAL FUNDS ALLOCATED TO PUERTO RICO AS OF APRIL 2021

	Category	Estimated Puerto Rico Funding, $M
Phase 1&2 (03/06 and 03/18/20)	Phase 1: Preparedness & Response Supplemental Appropriations Act	31
	Phase 2: Families First Coronavirus Response Act	377
	Sub-Total, Phase 1 & 2	**408**
Phase 3 CARES Act (03/27/20)	Unemployment Insurance (includes Regular UI program and FPUC, PEUC, PUA, EB, and LWA programs)[1]	6,632
	Small Business Support programs (Paycheck Protection Program, Economic Injury Disaster Loan Program)	3,205
	State and local governments support (Coronavirus Relief Fund)	2,241
	Economic Impact Payments ($1,200 checks)	2,736
	Education funds (includes ESSER, GEER, and HEER funds)	760
	Disaster Relief Funds (allocated to states and territories by FEMA)	738
	Economic Stabilization Loans	73
	Nutrition and housing assistance	428
	Hospitals and healthcare funding	494
	Business and individual tax incentives	335
	Transit and infrastructure funding	226
	National Guard, Law Enforcement, and Justice funds	16
	Other Division B programs	144
	Sub-Total, CARES Act	**18,029**
Phase 4 CRRSA Act (12/27/20)	Unemployment Insurance (includes Regular UI program and FPUC, PEUC, PUA, EB programs)[1]	1,200
	Small Business Support programs (Paycheck Protection Program, Economic Injury Disaster Loan Program)	1,136
	Economic Impact Payments ($600 checks)	1,493
	Education funds (includes ESSER, GEER, and HEER funds)	1,924
	Nutrition and housing assistance	1,024
	Hospitals and healthcare funding	395
	Transit and infrastructure funding	96
	Other CRRSA Act minor programs	100
	Sub-Total, CRRSA Act	**7,368**
Phase 5 ARP Act (03/11/21)	Unemployment Insurance (includes Regular UI program and FPUC, PEUC, PUA, EB programs)[1]	2,812
	Economic Impact Payments ($1,400 checks)	3,609
	Education funds (includes ESSER and HEER funds)	3,714
	State and local governments support (includes funds for municipalities)	4,209
	Nutrition and housing assistance	1,319
	Hospitals and healthcare funding	1,352
	Public transit funding	184
	Other ARP Act minor programs	528
	Sub-Total, ARP Act	**17,727**
Total	**Total Federal Funding**	**43,532**

1 Additional payouts will come from Commonwealth spending, but are grouped together here as stimulus along with the related Unemployment Insurance items in the CARES act

The 2022 Fiscal Plan incorporates the combined effect of federal and local economic support in three ways. First, certain types of funding intended to prevent revenue and job loss are assumed to mitigate what otherwise would have been even higher unemployment and revenue loss had those funds not been provided. These funds are implicitly reflected in the 2022 Fiscal Plan because, without them, the income loss estimates would have been larger. The federal Paycheck Protection Program, which is designed to encourage businesses to keep employees on the payroll, is one example of this type of funding.

The second type of funds are those administered through economic support programs designed to provide income support directly from the Federal or local government. Examples include unemployment benefits, economic impact payments, and direct payments through increased benefits of regular nutrition and rental assistance programs.

The total amount of income replacement funds included in the 2022 Fiscal Plan is estimated to more than offset the forecasted income loss due to the COVID-19 pandemic. Based on recent

research on stimulus funds spending,[24] the 2022 Fiscal Plan estimates that around 60% of income support funding will be spent over the FY2020-FY2023 period.[25] The remaining 40% of funds is projected to be saved and/or used to pay down debt, and then is spent over a 30-year period according to the long-term consumption smoothing concept.[26]

Finally, for government expenditures and programs funded by federal and local economic support programs, the 2022 Fiscal Plan uses the same approach as it does in estimating the pass-through of these expenditures to Puerto Rico as has been used for other types of economic stimulus funding such as disaster-recovery spending. Specific pass-through rates used on this funding are detailed below:

- A 23.5% pass-through rate is applied to spending on government programs and services. Examples include funding for law enforcement and the National Guard in Puerto Rico.
- A 5.5% pass-through rate is assumed for funding that is primarily directed to acquisition of goods that will predominantly be sourced off-Island. This funding impacts the Puerto Rican economy only through the on-Island transportation of such goods. Examples of this are testing and medical equipment, or educational supplies to facilitate distance learning.

Additionally, the 2022 Fiscal Plan accounts for the impact on growth that permanent changes in EITC and CTC programs are expected to deliver. The expanded EITC program is expected to represent an inflow of up to $600 million per year. This positive impact on the economy and growth, however, has an additional fiscal cost of increased local funding required to fund the minimum local spending requirement to attain the maximum federal funds available under the ARP Act. The CTC program is expected to have a positive impact on GNP in the short-term due to temporary benefits under the ARP Act, and in the long-term due to the recurring additional funds that it will provide to beneficiaries.

4.3 Federal funds from the Infrastructure Investment and Jobs Act

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law. The IIJA bill allocates around $2.3 billion federal funds to Puerto Rico with the purpose of improving the Island's infrastructure stock over FY2022-2026. These funds will support repairing and rebuilding roads and bridges; improving public transportation options; building a network of electric vehicle chargers; increasing broadband coverage; preparing infrastructure for climate change, cyber-attacks, and extreme weather events; improving water infrastructure; developing airport infrastructure; among other purposes.[27] Incremental funding from the IIJA (accounting for prior Federal infrastructure support) is estimated to be around $1.6 billion. The 2022 Fiscal Plan accounts for the impact of these incremental funds, which have a positive temporary impact on economy and growth due to the temporary nature of the funds.

4.4 Impact of fiscal or government efficiency measures

Government efficiency measures seek to streamline and transform the Government of Puerto Rico to deliver critical government services to the population and business sector more efficiently by optimizing revenue collection and reducing government-wide expenditures, while ensuring

24 Federal Reserve Bank of New York, "How Have Households Used Their Stimulus Payments and How Would They Spend the Next?," 2020

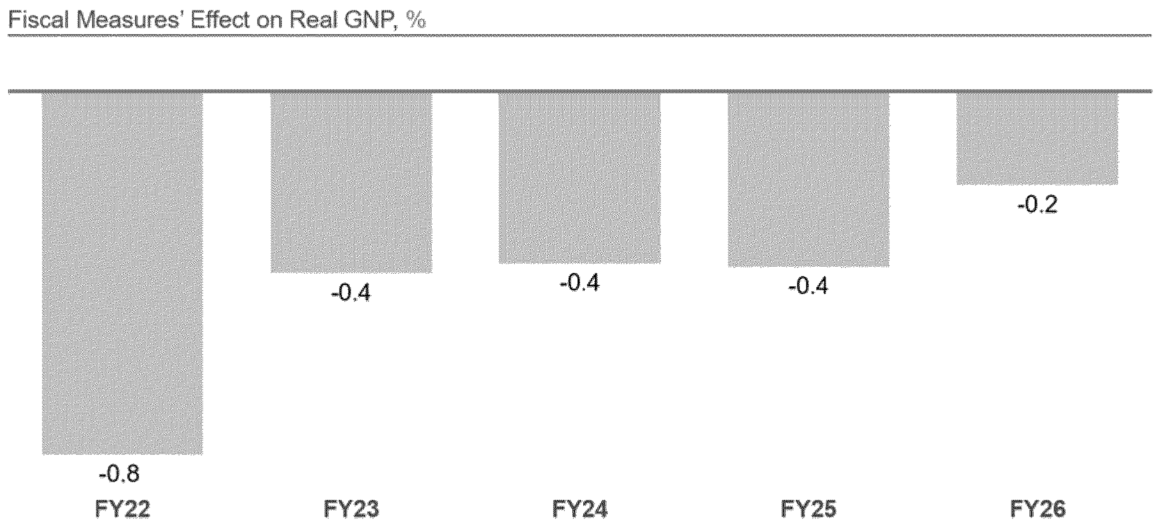
25 National Bureau of Economic Research, "Transfer Payments and the Macroeconomy: The effects of Social Security benefit changes," 2014

26 The duration of the period was calculated as the difference between the average life expectancy for people over 18 years of age in Puerto Rico and the average age of people over 18 years of age in Puerto Rico

27 White House, "White House Releases Updated State Fact Sheets Highlighting the Impact of the Infrastructure Investment and Jobs Act Nationwide", State Fact Sheet for Puerto Rico, 2021

sustainability of those services over time given population trends. Such policy actions will generate a contractionary impact on the economy in the short term but are necessary to drive government efficiency and fiscal sustainability, as well as improve service delivery, in the long term. The net effect of these two forces is still significantly positive from a fiscal savings perspective through FY2051. The short-term macroeconomic impact of the measures is summarized in *Exhibit 14*.

EXHIBIT 14: MACROECONOMIC IMPACT OF FISCAL MEASURES



The 2022 Fiscal Plan assumes that the fiscal impact of disaster relief spending and fiscal measures is not permanent, but rather is unwound over the course of several years. The 2022 Fiscal Plan unwinds these over five years, as model-based and econometric studies find that the output effect of an exogenous fiscal shock typically disappears within five years, even if fiscal measures are permanent.[28]

4.5 Impact of structural reforms

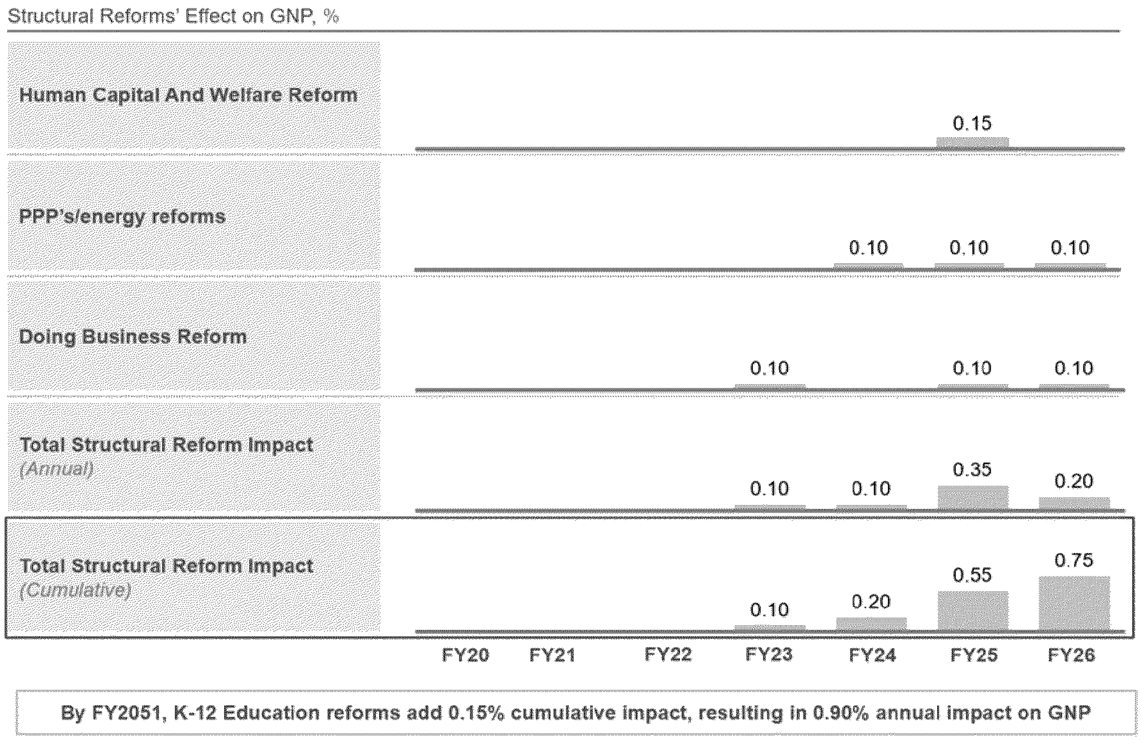
The estimated impact of structural reforms is based on work done by the International Monetary Fund on labor reforms implemented in Europe (e.g., Spain and Estonia) and South America (e.g., Peru and Colombia), among other jurisdictions; utilities reform in Latin America; broadly-accepted metrics for measuring improvement in the World Bank's Doing Business Rankings (as well as examples of growth experienced by countries that have implemented such reforms); and education reforms in Europe and elsewhere. Structural reform benchmarks, to the extent possible, come from nations or jurisdictions that face similar constraints to Puerto Rico (e.g., limited monetary policy options, high informal labor markets).

Energy and ease of doing business reforms are projected to increase GNP by 0.60% by FY2026, and human capital and welfare reform is expected to add another 0.15% in FY2025 (*Exhibit 15*). Finally, K-12 education reforms add an additional 0.01% annual impact beginning in FY2037, resulting in total GNP increase from structural reforms of 0.75% by FY2026 and 0.90% by

28 Batini, N. Eyraud, L. and Weber, A. "A Simple Method to Compute Fiscal Multipliers", IMF Working Paper WP/14/93, as well as Mountford, A. and Uhlig, H. "What are the Effects of Fiscal Policy Shocks?" Journal of Applied Econometrics, 24: 960-992 (2009) and Jorda, O. and Taylor, A. "The Time for Austerity: Estimating the Average Treatment Effect of Fiscal Policy," Economic Journal, 126: 219-255, February 2015

FY2051. The anticipated timing of the incremental positive impact of these reforms has been delayed in this 2022 Fiscal Plan given the delay in the Government's implementation efforts.

EXHIBIT 15: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



4.6 Population projections

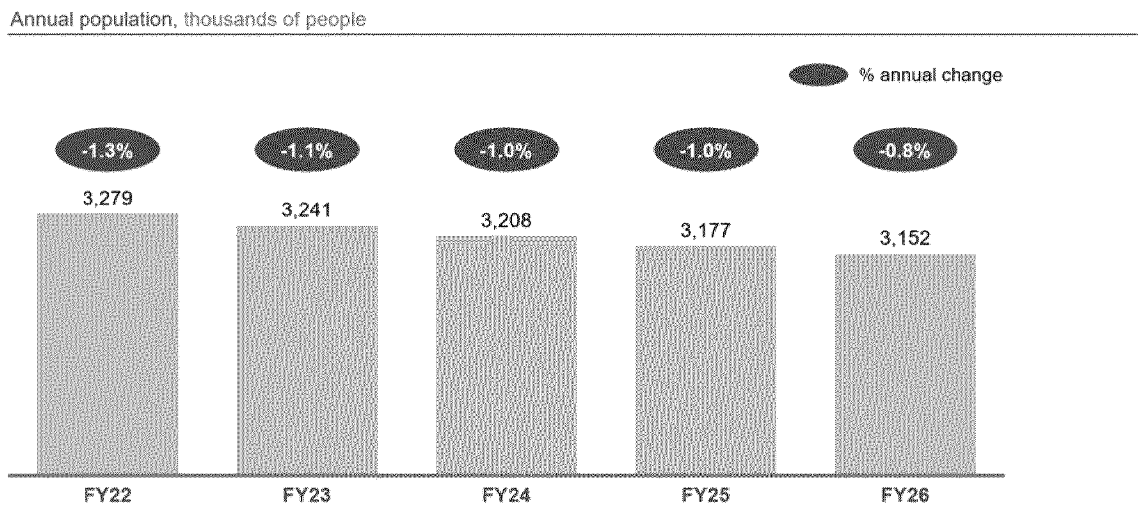
Even before Hurricanes Maria and Irma hit the Island in 2017, Puerto Rico's population had been trending downward by up to 2% every year as residents left to seek opportunities elsewhere and birth rates declined. In 2016, the U.S. Census Bureau's official forecast, projected a worsening population outlook due in large part to Puerto Rico's rapidly aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. Indeed, in 2016, Puerto Rico began to experience negative natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2021.

Hurricanes Irma and Maria served to compound the problem, spurring an additional outflow of people just as natural population decline has set in, as many residents lost houses, jobs, and loved ones. While some of these people have returned, the population is still projected to decline over the course of the 2022 Fiscal Plan period and beyond. Further disasters, such as the series of earthquakes experienced in 2020, have not made a swift return to balanced migration any more likely. But while net migration is a larger driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. Meanwhile, natural population change is not guaranteed to rebalance at any point, and births are likely to continue declining, while deaths are projected to slowly rise in the mid-term. COVID-19 suppressed air traffic between Puerto Rico and the mainland, and thus impacted migration, but recent data suggests that this effect is expected to be transitory.

Shortly after the publication of the 2021 Fiscal Plan, the Census Bureau published 2020 Census data, which showed a population of ~3.3 million in Puerto Rico at the end of 2020, representing an increase of 275,000 persons relative to the 2021 Fiscal Plan. The 2022 Fiscal Plan includes updated population forecasts that reflect the 2020 Census data as well as updated data on migration trends and births and deaths for Puerto Rico.

While the updated population forecast in the 2022 Fiscal Plan shows higher population projection relative to the 2021 Fiscal Plan, the growth rate remains negative. As outlined in *Exhibit 16* below, this 2022 Fiscal Plan projects that by FY2026, there will be approximately 5% fewer people living on the Island than in FY2021. By FY2051, the decline in population will be approximately 25%.

EXHIBIT 16: PROJECTED POPULATION CHANGE



Chapter 5. Fiscal Plan financial projections (FY2022-FY2026)

In the past several years, Puerto Rico has endured a tumultuous economic climate due to natural disasters and the COVID-19 pandemic. This has had a direct impact on economic growth and, ultimately, on Government revenues. The impact to Puerto Rico has been a real GNP decline in FY2020 followed by a rebound in FY2021 and FY2022 as the full impact of the federal economic support takes hold.

Before measures (i.e., in the "baseline forecast"), debt service and other PoA terms, the Fiscal Plan projects a surplus between FY2022 and FY2034.[29] This surplus declines over time as federal disaster relief funding slows, nominal GNP growth declines from a cyclical high in FY2022, Act 154 and Non-Resident Withholding revenues decline, and healthcare expenditures rise.

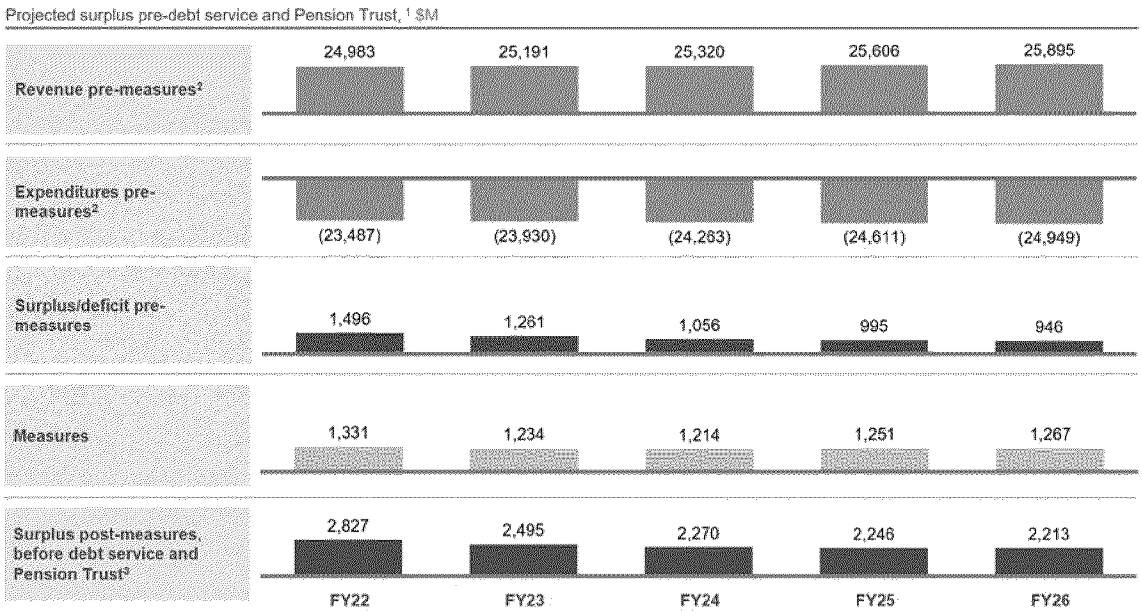
The fiscal measures and structural reforms contained in the 2022 Fiscal Plan drive a significant portion of the surplus in the 2022 Fiscal Plan. Fiscal measures will contribute ~$6.3 billion in savings and extra revenue over FY2022-FY2026 and structural reforms will drive a cumulative 0.90% increase in growth by FY2051 (equal to ~$33 billion). Insufficient implementation of structural reforms proposed in previous fiscal plans is holding back further potential growth and

29 The baseline forecast also reflects the pledge of a portion of annual SUT revenues to COFINA creditors as per the terms of the COFINA Title III Plan of Adjustment

revenue uplift. Structural factors holding back growth include continued highly regulated and restrictive private sector labor market policies that prevent higher growth, a delay in rolling out the NAP work requirement to increase labor force participation rates, and a lack of progress implementing more meaningful ease of doing business reforms to improve the economy's competitiveness and attract greater levels of investment and job creation. *Exhibit 17* illustrates the projected deficit / surplus (before debt service and PoA terms) through FY2026.

Projections for FY2027 onwards are included in *Chapter 6*.

EXHIBIT 17: PROJECTED SURPLUS PRE-DEBT SERVICE AND PENSION TRUST, BEFORE AND AFTER MEASURES



1 Values presented assume full and timely implementation of structural reforms and reflect GNP uplift due to these reforms
2 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit adjustment to PIT, expenditures omit capex investments
3 FY22 surplus is higher than FY23 onward due to a combination of Federal Medicaid funding, Act 154 revenues slowing from FY23 onward, and a higher level of incremental investment starting in FY23

5.1 Baseline revenue forecast

Major revenue streams (*Exhibit 18*) include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and Non-Resident Withholdings), as well as Federal funding. The 2022 Fiscal Plan also includes certain Commonwealth revenues that prior to PROMESA the Commonwealth appropriated to certain instrumentalities pursuant to statutes enacted by prior legislatures; the inclusion of these revenues in the 2022 Fiscal Plan is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each pre-PROMESA statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) in any event, absent PROMESA under the Puerto Rico Constitution, such monies would not be transferred to the instrumentalities while General Obligation debt is not being paid according to its terms.

There is expected to be significant near-term uncertainty in the level of revenue collections, as the post-COVID recovery is constantly evolving and as the U.S. federal government considers legislation that may provide additional federal funding. Since the April 2021 Fiscal plan, there has been new data reflecting a strong economic recovery related to resumption of economic activity enabled by COVID-19 vaccinations and federal stimulus funding disbursed throughout the

COVID-19 pandemic. As a result of these changes, the 2022 Fiscal Plan forecasts higher tax collections than the 2021 Certified Fiscal Plan. Relative to the 2021 Fiscal Plan, General Fund revenues are expected to be ~7% higher in FY2022 and ~6% higher in FY2023.

EXHIBIT 18: MAJOR REVENUE STREAMS POST-MEASURES

Key general fund revenue drivers, post-measures, $M

	FY22	FY23	FY24	FY25	FY26
Personal income tax[1]	2,281	2,374	2,360	2,385	2,406
Corporate income tax	2,196	2,225	2,194	2,238	2,260
Sales and use tax[2]	2,452	2,539	2,518	2,519	2,530
Act 154	1,631	1,447	1,199	1,199	1,199
Non-resident withholdings	440	369	369	370	372
Other general fund revenues[3]	2,328	2,189	2,107	2,091	2,084
FAM portion of SUT	140	144	144	145	147
Incremental excise taxes on off-shore rum	194	166	167	168	169
Petroleum, gasoline, diesel taxes	528	605	599	595	592
Vehicle license fees	140	141	139	138	137
CRIM property tax inflows	138	145	150	154	155
Miscellaneous other	209	191	190	192	193
Total	12,676	12,537	12,139	12,194	12,245

1 Includes expense related to EITC
2 Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
3 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

Additional details on the 2022 Fiscal Plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the approach to estimating revenues for key revenue streams.

5.1.1 Non-export sector General Fund revenue projections

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of tax returns reporting income above $60,000 in FY2018.[30] The 2022 Fiscal Plan incorporates the expected incremental individual income tax collections associated with disaster relief spending. The 2022 Fiscal Plan projects that disaster relief spending will continue to contribute to the income tax base, either through mainland workers temporarily working in Puerto Rico or from Puerto Rican residents entering the formal economy as a result of disaster relief projects.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income taxes are paid by 20 corporate taxpayers).[31] Historical aggregated data from Hacienda show that in the aftermath of the 2017 hurricanes, there was an influx of corporate activity spurred by reconstruction funding and mainland-based firms entering the Island's economy. This had led to higher corporate income taxes relative to GNP in FY2018 and FY2019, and this trend was continuing in FY2020 prior to the onset of COVID-19. The 2022 Fiscal Plan incorporates the contribution of disaster relief

30 Hacienda historical reports as of April 2018

31 Ibid.

spending to the corporate tax base into future years. Further, the 2022 Fiscal Plan reflects certain adjustments to corporate income tax revenues attributable to one-time M&A activity, which resulted in a non-recurring $488 million of revenues in FY2020 and ~$39 million in reduced corporate income taxes starting in FY2021, as projected by Hacienda.

Sales and use taxes (SUT): As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through the replacement of lost inventory, higher SUT compliance by larger firms less impacted by natural disasters and changes in consumption patterns caused by COVID-19 lockdowns and federal support). The 2022 Fiscal Plan incorporates incremental tax collections as disaster relief continues in future years.

Partnership income taxes: Act 60-2019 extended an alternative tax election for taxpayers to pay income taxes at the Partnership level at preferential tax rates. This change in tax administration resulted in a new category of revenue collections of ~$439 million[32] for FY2021. These payments largely reflect payments that otherwise would have been made by the partners in these entities and therefore would have been reported as personal or corporate income tax. While there is still some uncertainty over the true size of the Partnerships tax base, year-to-date receipts for FY2022 show similar collections to the same period in FY2021. The Plan treats 75% of the $430 million projected partnership revenues as recurring, and 25% as non-recurring revenues related to COVID-19, which unwind by FY2024.

Other General Fund revenue (including Motor Vehicles, Alcoholic Beverages, and Cigarettes): Motor vehicle revenue tax receipts surged in FY2018 and this trend continued into FY2021, as residents continued to accelerate motor vehicles purchases in the aftermath of the 2017 hurricanes and during the COVID-19 pandemic as federal stimulus payments reached the Island. The 2022 Fiscal Plan forecasts that elevated purchasing of motor vehicles will continue into FY2022 but purchases then return to historical trends over the following years. In addition, since FY2019 there has been a persistent increase in "other excise tax" collections, as these taxes were migrated to the new Internal Revenue Unified System (SURI by its Spanish acronym) platform. Hacienda has reported that it is challenging within the new platform to properly classify a component of these revenues according to their appropriate excise tax classification (e.g., motor vehicles, alcoholic beverages). Accordingly, the agency has created a suspense account to recognize these collections until the corresponding return is received and reconciled. The Oversight Board has requested corrective action be taken to accurately and in a timely manner recognize revenues in their appropriate revenue accounts to reduce the accumulation of unclassified excise taxes, and better isolate how much of the elevated collections come from re-classified taxes versus improved compliance. The 2022 Fiscal Plan includes an updated forecast of other General Fund tax revenues to reflect the expected continued elevated collections relative to prior year forecasts. The Oversight Board will continue to work with Hacienda to decompose this category of revenue and improve the granularity of future year forecasts.

Export sector revenue projections: Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. From FY2017 to FY2024, the 2022 Fiscal Plan estimates that Act 154 and NRW revenues will erode due to U.S. federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, and patent expirations. During FY2021, the Government submitted comments for the U.S. Treasury's consideration in response to the IRS notice of proposed rulemaking REG-101657-20 publication. On December 29, 2021, the U.S. Treasury issued final guidance agreeing to delay for one year, until January 1, 2023, the application of new foreign tax credit regulations to the excise tax imposed by Act 154. Thus, the Act 154 excise tax paid by multinational corporations will continue to be creditable against the U.S. income tax liability through calendar year 2022. In addition, the U.S. Treasury has publicly proposed reforms to the global corporate tax regime that could impact Puerto Rico, if enacted.

[32] Hacienda repot as of August 2021. Does not include deferred taxes from FY2020 collected during FY2021

Finally, a few Act 154 filers have publicly announced decisions to cease operations on the Island. These announcements and potential future announcements may have a more negative effect on Act 154 and Corporate Income Tax collections than currently projected, while timely tax reform to respond to these changes may stabilize collections. The Oversight Board will closely monitor developments in the event they impact the 2022 Fiscal Plan.

5.1.2 Medicaid funding

Although Puerto Rico has a 55% statutory federal medical assistance percentage (FMAP) for most populations, the amount of annual federal funding for non-CHIP Medicaid expenditures received under Section 1108 is capped each year – meaning the Commonwealth is fully responsible for covering costs above this cap. Prior to recent CMS guidance, this cap was set at around $400 million annually. While the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), this growth rate does not keep pace with the Island's projected healthcare expenditure growth.[33]

Historically, the actual cap applied to Puerto Rico's Medicaid program varied based on a series of one-time legislative actions to increase funding to the Island's Medicaid program. Under a September 2021 CMS interpretation of Section 1108 of the Social Security Act, Puerto Rico is now permanently expected to receive a higher federal funding allotment cap (starting at $2.943 billion in FFY2022).[34] The growth rate remains pegged to the medical component of CPI-U.

Each year, ~$100 million of federal Section 1108 funds are allocated to the Department of Health to cover the eligible federal match on expenditures related to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations. That portion of federal funding is, therefore, considered unavailable for use on other Medicaid expenditures.

- **Increases in available Medicaid funding from federal legislation:** Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act, the Bipartisan Budget Act of 2018, the Further Consolidated Appropriations Act of 2019, and the Families First Coronavirus Response Act of 2020. These bills provided supplementary federal funding to Puerto Rico's Medicaid program through September 30, 2021 (i.e., the first quarter of FY2022) and generally relied on two levers to enhance Puerto Rico's federal Medicaid reimbursement: increasing the statutory funding cap and increasing the FMAP.

  Due to the short-term nature of the supplemental federal funding, Puerto Rico always faced the prospect of a Medicaid fiscal "cliff," whereby federal Medicaid funding would fall precipitously to roughly $400 million per year.

  Beginning October 1, 2021, the available federal funds were expected to fall to ~$406 million to be reimbursed at the statutory FMAP of 55%. However, in September 2021, CMS announced an interpretation of the Medicaid funding cap provision for Puerto Rico under Section 1108(g) of the Social Security Act that increased the allotted cap for FFY2022 to $2.943 billion. CMS further stipulated in this clarification that the cap should continue to grow by the medical care component of the CPI-U each federal fiscal year thereafter.[35]

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[33] According to §1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011 to FY2016, this growth averaged 2.9%. From FY2012 to FY2022, the growth averaged 2.8%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in the 2022 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2051). Instead, the medical component of CPI-U includes other factors that lower the inflation rate by approximately 3-5 percentage points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures

[34] Before CMS' recent interpretation of §1108(g) of the Social Security Act, Puerto Rico's federal funding allotment cap for Medicaid was forecasted to be closer to $0.4 billion in FFY2022

[35] In November, the Government Accountability Office (an independent agency that works for Congress) issued an opinion which strongly disagreed with the CMS interpretation. After receiving the GAO opinion, CMS formally reiterated its intention to stick to

The CMS interpretation of Section 1108(g) provides a long-term Medicaid funding solution for the Commonwealth. The 2022 Fiscal Plan allows the Commonwealth to maximize available federal Medicaid funds in FY2022 and FY2023, adding coverage for additional benefits and/or enrollees, as necessary, to reach a new steady-state program size. Starting in FY2024, the 2022 Fiscal Plan assumes the program will grow at a rate commensurate with projected PMPM inflation rates and Island population decline. This program growth rate slightly exceeds the growth rate of the federal cap and includes the reinvestment of savings from Medicaid reform measures.

By making the Commonwealth's target total program expenditure dependent on maximizing federal funding available, the new program size estimates become very sensitive to potential changes in FMAP. The Further Consolidated Appropriations Act of 2019 increased the statutory FMAP through September 30, 2021, from 55% to 76% for most populations, and the Families First Coronavirus Response Act of 2020 provides for an incremental 6.2 percentage points of FMAP for the duration of the COVID-19 Public Health Emergency Period (PHE), which is defined by the U.S. Secretary of Health and Human Services and currently extends through March 2022. In September 2021, a continuing resolution (the Extending Government Funding and Delivering Emergency Assistance Act) extended the 76% statutory FMAP for most populations through December 3, 2021. However, this extension of the statutory FMAP increase was not included in the latest continuing resolution (the Further Extending Government Funding Act of December 2021), and on December 4, 2021, Puerto Rico's statutory FMAP returned to its standard base level of 55% for most populations.

- **Enhanced Allotment Plan (EAP) funding:** The Enhanced Allotment Program (EAP) provides an additional source of federal funding to support low-income beneficiaries in their purchase of prescription drugs under Medicare Part D. This allotment can only be used for this purpose and is not countable against the Section 1108 funding cap. Estimates for this funding come from the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym). In FY2022, EAP funding is projected to be ~$65 million. The EAP inflation rate is forecasted to be roughly 5.3% annually.[36]

- **Children's Health Insurance Program (CHIP) funding:** The Children's Health Insurance Program (CHIP) provides health coverage to eligible children, through both Medicaid and separate CHIP programs. CHIP is administered by the Commonwealth according to federal requirements. The program is funded jointly by Commonwealth and federal funds. This funding is incremental to Section 1108 capped funding and is not subject to a federal funding cap. Without additional legislation, the CHIP matching rate, also known as the Enhanced FMAP (or eFMAP), for Puerto Rico is statutorily set at a minimum of 68.5% under Title XXI of the Social Security Act. Post passage of the Affordable Care Act, starting in FY2016, the eFMAP for Puerto Rico was raised to 91.5% through September 30, 2019. Subsequently, the eFMAP increased to 99% through a combination of legislative activity including the HEALTHY KIDS Act and Families First Act. The former expired in September 2020.[37] According to ASES' December 2021 projections, the CHIP eFMAP remained at 85% through November 2021, before dropping to 68.5% in December 2021.

- **Special Revenue Fund revenues from municipalities:** Additional revenue for the Medicaid program comes from municipal intra-governmental transfers predicated on a responsibility by the municipalities to provide funding for costs on behalf of their employees. Assuming a 55% statutory FMAP (for non-expansion Medicaid populations), municipalities contribute ~$164 million per fiscal year to the Commonwealth's Medicaid program. In response to legislative changes to this FMAP and the incremental FMAP from PHE, the funding formula for municipalities was revised. As the Federal Government increases the

its interpretation of the law. CMS has effectively implemented its interpretation of the law, with no indication of plans to change course. The Commonwealth and ASES continue to operate under the CMS interpretation

[36] According to ASES, this rate is equal to the expected annual increase in Medicare Part D prescription drug costs.

[37] MACPAC, "Medicaid and CHIP in the Territories," 2020

FMAP, municipalities have been given the benefit of a reduced municipal contribution. See *Section 5.1.4* below for more information.

- **Special Revenue Fund revenues from Commonwealth employers:** Additional revenue for the Medicaid program comes from intra-governmental transfers to cover retirement and health care expenses incurred by various Commonwealth entities on behalf of their employees. Please see *Section 5.1.4* below for more information.

- **Special Revenue Funds revenues from prescription drug rebates:** Currently, Puerto Rico operates its own drug rebate program whereby the Commonwealth negotiates or utilizes pre-negotiated agreements with drug manufacturers to return a portion of cost for prescription drugs (expected gross rebates are $264 million in FY2022).[38] These funds enter the Commonwealth budget as Special Revenue Funds and are applied directly against the costs of Medicaid premiums. Because CMS covers a portion of the prescription drugs, net federal funds are expected to decrease by the eligible amount "paid for" by CMS.[39] In FY2022, ASES began setting aside funds to prepare for this reduction in federal funds due to sharing. This is expected to result in $204 million additional General Fund expenditures in FY2022 and $190 million in FY2023.

  Under CMS Rule 84 FR 64783, U.S. Territories were to be required to join the federal Medicaid Drug Rebate Program (MDRP) on April 1, 2022,[40] unless they applied for and received a waiver. However, according to the Federal Register,[41] on November 19, 2021, CMS issued a final rule to delay for nine months the April 1, 2022 effective date for inclusion of the U.S. Territories to January 1, 2023. This is the fourth delay in implementation of MDRP for the territories.

  ASES has expressed intent to join the MDRP program by January 2023. Puerto Rico's entry into MDRP is expected to yield higher gross rebates from drug manufacturers compared to those from the local drug rebate program the Commonwealth currently has in place. Partly to enable entry into the federal program, the Government has also indicated its intention to update its accounting systems and the methodology by which it reports prescription drug utilization to the Centers for Medicare and Medicaid Services (CMS).[42] In doing so, Puerto Rico will also share a portion of the rebate revenue with the Federal Government to the extent it reduces the costs eligible for federal matching. Estimates received from ASES indicate MDRP could bring in nearly $607 million in gross rebates in FY2024 and $643 million in FY2025. This increase in gross rebates from MDRP is expected to increase the Commonwealth's surplus, particularly in later years.

The 2022 Fiscal Plan ensures that the Commonwealth is appropriately funded to meet its matching obligations under current law. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment. In the event that the amount of federal funds expected to become available during any future fiscal year changes, and,

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38 Based on ASES estimates as of January 18, 2022

39 For Medicaid non-CHIP and EAP rebates, the amount of rebates that would trigger a reduction in federal funds is reduced by the amount of corresponding expenditures *over* the amount needed to maximize the federal funds cap. Federal funds are reduced by the FMAP multiplied by the eligible amount that would trigger a reduction in federal funds. The Commonwealth would be expected to cover any shortfall in program funding with General Funds.

40 Federal Register, "Medicaid Program; Covered Outpatient Drug; Further Delay of Inclusion of Territories in Definitions of States and United States," 2019. (Accessed 16 April 2021)

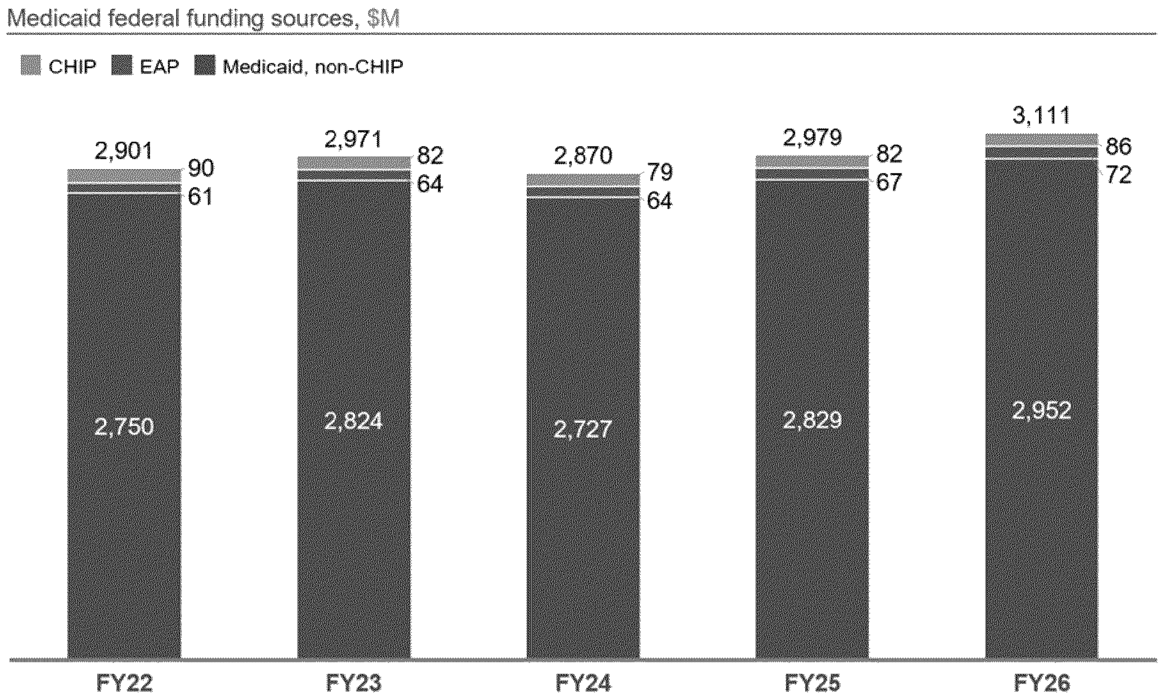
41 Federal Register, "Medicaid Program; Delay of Effective Date for Provision Relating to Manufacturer Reporting of Multiple Best Prices Connected to a Value Based Purchasing Arrangement; Delay of Inclusion of Territories in Definition of States and United States," 2021

42 In December 2021, ASES announced a contract with Abarca Health as its pharmacy benefit manager (PBM) and Medicaid Drug Rebate Program (MDRP) manager.

depending on the conditions imposed on the federal funds granted, the Oversight Board reserves the right to revise the projected General Fund appropriation for ASES appropriately.

Exhibit 19 outlines expected Medicaid federal fund receipts, with funding aligned from federal fiscal years to Puerto Rican fiscal years. Medicaid expenditures are discussed in detail in *Chapter 16*.

EXHIBIT 19: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



5.1.3 *Other federal funding*

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2022 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

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5.1.4 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) revenues: The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, dividends from public corporations, and financing proceeds. Government tracking and reporting of these SRF revenues, associated expenses, and resulting surpluses or deficits has historically been incomplete and inconsistent. The baseline level of SRF revenues of Commonwealth agencies (excluding Independently Forecasted Component Units or IFCUs) has been updated in this 2022 Fiscal Plan by agency. The 2022 Fiscal Plan does not further detail SRF by type (special state funds, own revenues, and other revenues), as Commonwealth agencies (excluding IFCUs) do not report this level of detail consistently. Future budget and Fiscal Plan processes will aim to further clarify Special Revenue Funds and apply controls to ensure transparency and accountability for these revenues. SRF revenues from fees and collections are also expected to be negatively affected by the COVID-19 pandemic, as agencies face decreased demand for services as a result of the lockdown. In order to achieve greater transparency and controls over SRF, the Government must identify all SRF sources at a granular level and produce a revenues and expenditures report on a monthly basis, including a profit and loss statement for each Special Revenue Fund.

Independently Forecasted Component Unit (IFCU) revenues: The Commonwealth contains twelve Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardio Center). These entities are mostly funded by Special Revenue Funds and may also receive General Fund appropriations. Through the annual budget process and tracking of actual receipts and expenditures, the Oversight Board has been able to gain more insight into the specific revenue streams for these entities to further refine the IFCU revenue projections. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation, population, or as governed by legislation.

Municipal contributions to PayGo and the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym): The 2022 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 72-1993, ASES has received funding from municipalities for the administration and delivery of the Government Health Plan on their behalf. Similarly, since the passage of Act 106-2017, municipalities that participate in ERS are financially responsible for PayGo expenditures covered by the Commonwealth. The passage of Act 29-2019 disrupted this model and required the Government to fund municipalities' PayGo and Medicaid costs from the General Fund without receiving reimbursement from the municipalities. However, following legal proceedings initiated by the Oversight Board challenging the validity of Act 29-2019 under PROMESA, the Title III court ruled that Act 29-2019 violated PROMESA and nullified the law, thereby reinstating the municipalities' obligation to cover PayGo and healthcare payments for their employees. As a result of this ruling, the Commonwealth is entitled to seek reimbursement for prior payments made under Act 29-2019 and is empowered to act if these contributions are not received (e.g., to withhold payments for utilities, appropriations). The effective date of the court's ruling was delayed to May 7, 2020 to allow for the parties to discuss potential solutions to the financial challenges faced by municipalities, particularly in light of the COVID-19 pandemic. Accordingly, the 2022 Fiscal Plan assumes that municipalities fund their respective contributions for PayGo and healthcare expenditures going forward.

The formula for calculating municipal contributions to ASES is based in part on the FMAP. Assuming a 55% statutory FMAP (for non-expansion Medicaid populations), municipalities contribute ~$164 million per fiscal year to the Commonwealth's Medicaid program. As the FMAP increases, *ceteris paribus*, the required municipal contribution decreases. In calculating municipalities' healthcare expenditures, the 2022 Fiscal Plan takes into account the incremental federal funding support in FY2021 and FY2022 made available through the 2020 Further

Consolidated Appropriations Act. Moreover, in September 2021, the U.S. Congress passed a short-term continuing resolution (the Extending Government Funding and Delivering Emergency Assistance Act) extending the increased FMAP from the 55% statutory baseline to 76% through December 3, 2021. Additionally, effective October 18, 2021, the U.S. Secretary of HHS renewed the declaration of the Public Health Emergency, as such the temporary 6.2 percentage point FMAP increase is provided to each qualifying territory through the last day of the calendar quarter in which the PHE declared for COVID-19 expires, including any extensions (as of publication, the PHE is expected to expire after March 2022). These temporary increases in FMAP decrease the required municipal contribution for the corresponding period, and any decrease in municipal contributions is covered by drawing on the General Fund. As of publication, the municipal contribution amount for FY2022 is expected to be ~$116 million.

Public Corporation PayGo receipts: The 2022 Fiscal Plan includes receipts from public corporations (e.g., PRASA) that participate in the Employee Retirement System (ERS) to cover PayGo expenditures on behalf of their retirees covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act if these contributions are not received (e.g., will withhold payments for utilities).

FAM: The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM. These resolutions must be consistent with the 2022 Fiscal Plan and the applicable special revenue funds included in the Certified Budget.

5.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives: In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico provides hundreds of millions of dollars in tax credits to corporations and individuals each year. Some of these tax credits function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion on which projects will receive incentives. Many of these tax credits are intended to pursue certain policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries. Unlike traditional expenditures, however, tax credits are not incurred in a transparent fashion, and, with only a few exceptions, are currently uncapped by any aggregate amount of benefits conveyed. The issuance of tax credits also tends to be done in an ad hoc manner, with unclear economic justification for the costs incurred and without monitoring of the goals described above (i.e., how many jobs in any particular year were created). This leads to an unpredictable, and potentially costly, foregone revenue stream each year.

Uncapped and unpredictable issuance of tax credits can have a materially negative fiscal impact. Several states have faced challenges with unexpected levels of expense from tax expenditures, such as Michigan (the Michigan Economic Growth Authority tax credits), Louisiana (tax credit for horizontal natural gas drilling), and New York ("brownfields" tax credits). The examples from these states are not uncommon and they reinforce the uncertainty and risk associated with the establishment of tax credits.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and should manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and

annual cost controls will help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives and keep the incentives from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2022 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits to show the foregone revenue associated with these credits. The 2022 Fiscal Plan includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in the period of the report *Exhibit 20*, over nine tax years (2010-2018), tax credits claimed across all tax filers averaged $261 million annually. The 2022 Fiscal Plan recommends all reporting going forward include monthly and quarterly reports as to the gross revenues, tax credits claimed, and the net revenues received for the period of the report.

EXHIBIT 20: TAX CREDITS BY YEAR

Projection, $M	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Regular Corporations	94	48	89	89	140	66	75	82	18
Incentive Corporations	135	147	133	158	116	78	70	56	66
Individuals	59	37	90	69	65	66	61	89	157
Total Tax Credits Claimed	**288**	**232**	**312**	**316**	**321**	**210**	**206**	**227**	**241**
9-Year Average									**261**

SOURCE: Hacienda

The Government must also adopt a transparent limit to the amount of tax credits issued and claimed at an amount below $261 million by, for example, capping the notional amount, restricting the number of companies and individuals that can claim credits annually, including sunset provisions, or inserting time bound clauses upon which each tax credit will expire. This is similar to the approach that other states have taken to limit the use or issuance of tax expenditures, including Arizona, California, Florida, Illinois, Massachusetts, Minnesota, New York, Ohio, and Pennsylvania. This limit is separate and incremental to the cash grants that corporations and individuals also receive, which will be captured in Certified Budgets going forward. Future Fiscal Plans should also be expanded to include limitations on foregone revenues due to preferential tax rates and exemptions, including municipal exemptions.

These forecasts should be maintained and updated by leveraging the work that Hacienda has undertaken to produce and maintain a more comprehensive measurement of tax expenditures over time through the annual Tax Expenditures Report. As discussed in more detail in *Section 17.3.1*, the publication of the initial Tax Expenditures Report in September 2019 provided, for the first time, better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure.

For tax expenditures reporting to maintain relevance and maximize its impact on the policy making process, regular reviews of each tax incentive should be completed to assess whether each incentive is meeting its policy objective (and an assessment of benefits along with costs). This was missing from the inaugural report and detracts from the ability of the report to provide proper context from which to inform budgetary decision-making.

The estimates in the tax expenditures report should also be systematically incorporated into the annual fiscal plan and budget review process. This means they need to be considered in conjunction with consideration of direct spending proposals at the executive review and legislative levels and the agencies responsible for programs.

To achieve the objectives above, the Tax Expenditures Report must be produced annually on a timely and efficient basis. In fact, the publication of the first Tax Expenditures Report, in September 2019, stated the second annual report would be published in March 2020, yet it has not been published. Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.

The Government has also taken initial steps to provide transparency around and control these expenditures through its proposed reforms to the Incentives Code. By targeting a limit on the amount of tax expenditures that can be spent each year, the Government would retain control over the cost and enable public debate about the value of this type of spending in light of the various needs on the Island.

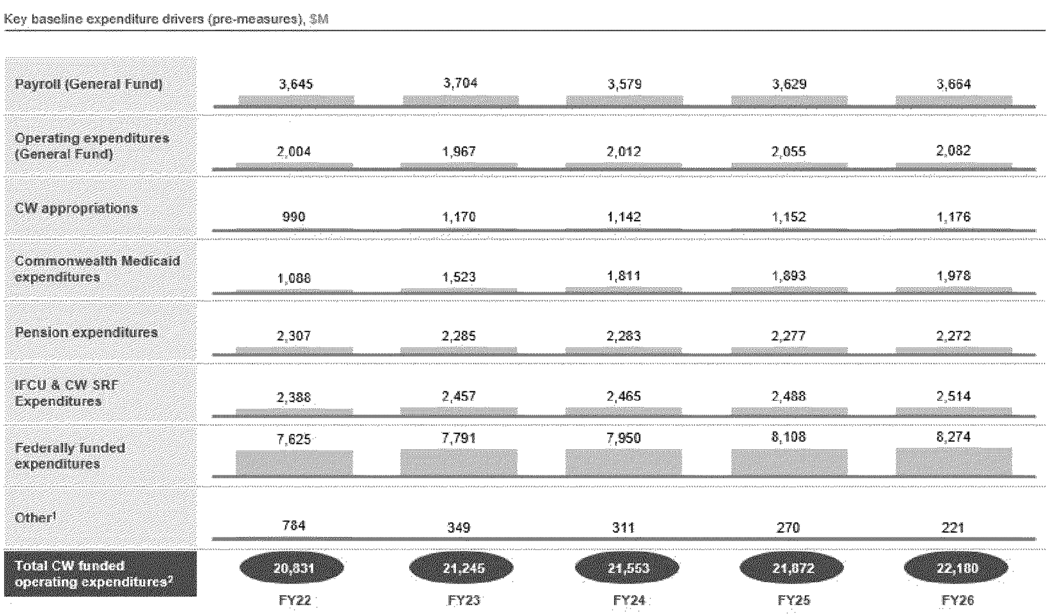
5.1.6 *Gross-up for COFIM receipts*

The Municipal Finance Corporation (COFIM, by its Spanish acronym) is the public corporation that collects the 1% Municipal SUT established by law for certain municipalities. The 2022 Fiscal Plan includes projections of this 1% revenue stream, along with exactly offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

5.2 Baseline expenditure forecast

The trend of **"baseline expenditures"** (i.e., the forecast of projected expenditures assuming no measures and structural reforms), is summarized in *Exhibit 21*.

EXHIBIT 21: MAJOR OPERATING EXPENDITURE CATEGORIES PRE-MEASURES



1 Includes Disaster Recovery Cost Match, Restructuring / Title III costs, Social Programs CW funded, Reserve for emergency fund and Budget incentives
2 Does not include capital expenditures, enterprise funds, disbursements to entities outside the 2022 Fiscal Plan, and other non-recurring expenditures

5.2.1 General fund payroll and non-personnel operating expenditures

Payroll expenditures: Despite progress made through the FY2021 budget process, consistent granular payroll data continues to be a challenge for the Government. FY2018 payroll numbers reflect actual expenditures where available and the Certified Budget in cases where actual data was not available (adjusted to reflect reapportionments among agencies). FY2019 was assumed to be equal to FY2018 given the Fiscal Plan Compliance Act, which enacted a payroll freeze except for certain agency-specific adjustments. Beginning in FY2020, base payroll has been assumed to grow by Puerto Rico inflation. As part of the FY2020 and FY2021 budget certification processes, key agencies were analyzed to develop detailed payroll estimates based on agency rosters, actual payroll run rates and anticipated changes to headcount and salaries. Any reduction to baseline payroll expenditure projections from attrition, absenteeism, or workforce reductions is captured through fiscal measures.

Non-personnel operating expenditures: Non-personnel operating expenditures in FY2019 were also assumed to be equal to FY2018 budgeted levels. Thereafter, non-personnel operating expenditures are assumed to grow by Puerto Rico inflation, with select adjustments as necessary. For example, the 2022 Fiscal Plan includes a 10% reduction to FY2022 Special Fund for Economic Development (FEDE, by its Spanish acronym) and Economic Incentive Funds (FIE), Cruise Industry Incentives, Renewable Energy, Export Development, and Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CINE) expenditures, an amount which is then taken out of all future years. (In FY2022, these select expenditures reductions are $10 million total.)

5.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures: The Commonwealth funds a significant portion of its expenses with Special Revenue Funds and previously did not report on these expenses transparently in a consistent manner. Given that SRF revenues and expenditures are not part of the General Fund for budgeting purposes, they are not included in the General Fund budget resolutions approved by the Legislature. However, the Oversight Board has certified SRF expenditures starting with the FY2019 budget process, with the objective of applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated and allocated across agencies (by payroll and non-payroll expenditures). Given the mandate of the Office of the CFO to place controls on SRF expenditures, baseline SRF expenses are forecasted to be equal to the estimated revenues in each year before fiscal measures.

Independently Forecasted Component Unit (IFCU) operational expenditures: Most IFCU payroll and non-payroll expenses grow by inflation, with exceptions for certain expense categories (e.g., healthcare costs grow with medical inflation, variable costs that grow in line with revenues).

The baseline expenditures include municipality and public corporation PayGo, COFIM, and FAM expenditures, including all the conditions outlined in *Section 5.1.4*.

5.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government (updated in select cases for new information received FY2019-2021) and grow with inflation (and in some cases population). In the case of Community School Program (largely Title I funding), revenues will

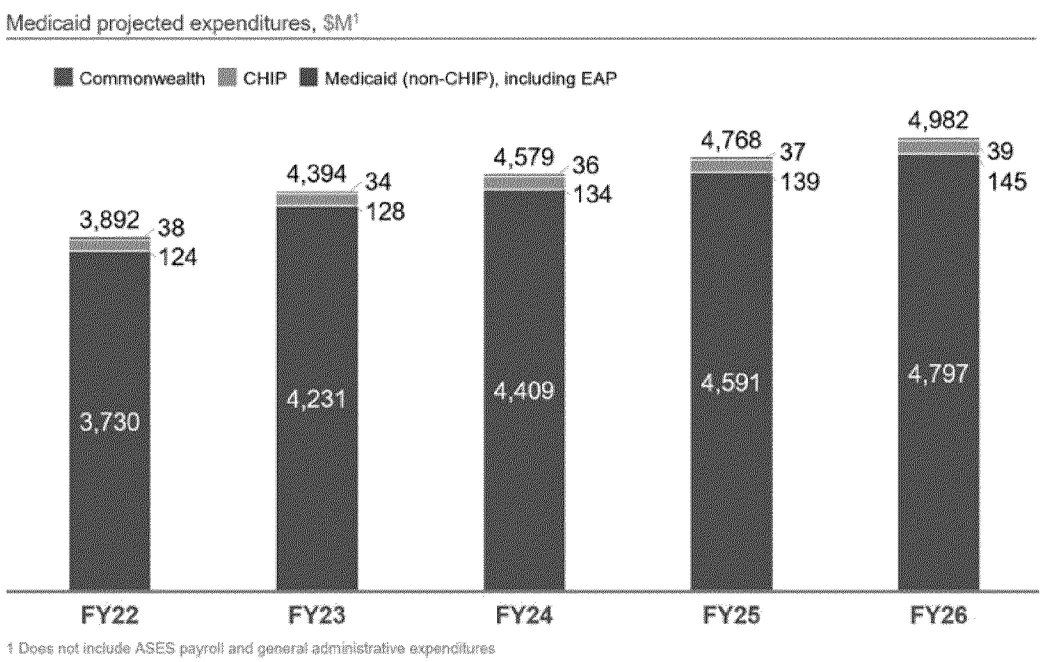
grow with growth in total federal funding - presumed to track U.S. inflation - but decline with decreasing enrollment, which is the most salient determinant of Puerto Rico's annual allocation. The 2022 Fiscal Plan assumes that payroll and operating expenditures grow at the same rate, assuming that the General Fund budget for PRDE will be considered separately from federal funding levels. Accordingly, PRDE will spend federal funds based on the amount received.

5.2.4 *Medicaid expenditures*

As described in *Section 5.1.2*, it is assumed that the Commonwealth will use the full federal funding available in FY2022 onward, per the latest CMS interpretation of the Section 1108 of the Social Security Act. In order to use all of the federal funds available, given the effective federal matching rates across different eligibility groups, total Medicaid program expenditures are expected to reach roughly $4.6 billion annually by FY2024. The significantly higher program size would provide the Commonwealth with the opportunity to increase coverage for additional benefits and/or higher enrollment.

Beginning in FY2024, the plan assumes the Puerto Rican Medicaid program's total expenditures will grow by population-adjusted health care inflation.[43] Total program expenditures include managed care premiums for all federally eligible enrollment groups, including wrap-around payments for those eligible for both Medicare and Medicaid and who enroll in Medicare Advantage programs (also known as Platinos). It also includes eligible direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. Further included in these expenditures are coverage for the wholly Commonwealth-funded enrollees whose expenses are not federally subsidized and non-premium administrative costs to ASES; however, program size excludes costs incurred by the Department of Health for FQHC and Medicaid Program administration, which are also eligible for federal matching funds (see *Section 5.1.2*). *Exhibit 22* shows a breakdown of projected Medicaid expenditures.[44]

EXHIBIT 22: PROJECTIONS FOR MEDICAID AND CHIP EXPENDITURES



43 The post-FY2023 growth rate of the total Medicaid program size is forecasted to be a combination of the PMPM growth rate and the rate of change of the Island's population.

44 Plan Vital for current and future police retirees is also include in these expenditures. See *Part IV* for more detail.

5.2.5 Commonwealth pension expenditures

Baseline pension costs: Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis. Starting in FY2022, pensions baseline costs (reflecting System 2000 segregation) are projected to decrease progressively from $2.3 billion in FY2022 to $1.2 billion in FY2051, with an average annual cost across the period of $1.9 billion.

5.2.6 Appropriations

Municipalities: Baseline municipal appropriations are projected to remain constant at ~$220 million annually, which represents the FY2018 appropriation level exclusive of a $78 million *one-time* allotment to municipalities made in the aftermath of Hurricanes Irma and Maria.

University of Puerto Rico (UPR): The UPR total appropriation is $500 million from FY2023 to FY2027 as per Act 53-2021. Following this period, the appropriation will continue as previously envisioned in the 2021 Fiscal Plan.

Highways and Transportation Authority (HTA): HTA is currently funded through a combination of own revenues, federal funds, and Commonwealth funds (including both a capital appropriation and an operating appropriation). Within the 2020 HTA Fiscal Plan, toll fares are used to cross-subsidize capital and operating expenditures on non-toll roads. The 205(a) letter of January 29, 2021 recommended that HTA be reorganized into a toll road entity, with non-toll roads managed by DTOP and transit assets managed by PRITA. Therefore, consistent with the 205(a) letter recommendation, the 2022 Fiscal Plan increases the HTA operating transfer to cover the full cost of non-toll assets, marking the first step towards the implementation of the Transportation System Reform outlined in *Chapter 11*. The appropriation does not include funding for the HTA emergency reserve, nor does it draw down existing balances. It also assumes toll roads have access to federal funds until reorganization is complete (assumed FY2023), but not thereafter. As a result, over FY2025-FY2051, the 2022 Fiscal Plan includes an average annual operating appropriation of $110 million and average capital appropriation of $68 million per year.

Additionally, as part of the HTA PROMESA proceeding, the U.S. District Court approved the amended PoA filed by the Oversight Board which includes one-time cash payments, the issuance of new debt, and CVIs. In accordance with the PoA, HTA shall make payments in cash of $184.8 million to holders of the HTA 68 Bonds Claims and $79.2 million to holders of the HTA 98 Senior Bond Claims. Also, HTA shall make a cash payment of $125 million for consummation costs in consideration of fees and expenses incurred by an Initial PSA Creditor. Additionally, HTA must cover $15 million to the DRA Parties in accordance with the DRA Stipulation. From the total owed by HTA of $404 million, the Commonwealth will provide a one-time loan to HTA for FY2022 in the amount of $314 million in addition to the annual operating and capital appropriations presented above to ensure HTA's liquidity upon confirmation of the Commonwealth PoA. While the exact repayment terms have not yet been determined, the 2022 Fiscal Plan assumes a 20-year subordinated loan repayment for illustrative purposes that will be updated once the loan details are finalized.

5.2.7 Other operating and capital expenditures

Utilities: The 2022 Fiscal Plan uses the estimated billings for electric and water costs provided by PREPA and PRASA, respectively on agency level. Estimated water billings from PRASA are projected to grow at the same rate as water rate increases over the period of FY2021-FY2025; thereafter, PRASA billings are projected to grow at water rate increases and then according to inflation. Estimated electric billings from PREPA are projected to grow at the same rate as power rate increases over the period of FY2021-FY2051.

Parametric insurance: The 2022 Fiscal Plan includes an annual investment of ~$32 million to cover the Commonwealth's portion of the annual cost of parametric insurance. The parametric insurance program is supplemental to the existing budgeted premiums for renewing current traditional insurance policies. The following conditions applicable to Commonwealth entities are placed on the requested funding:

- Develop a sophisticated insurance plan with a comprehensive program that considers the available markets, costs, meeting Operations and Maintenance (O&M) requirements, and levels of coverage. This would include conducting a risk assessment analyzing expected O&M costs on a building-by-building basis; identifying the types of insurance needed to protect against risk; identifying insurance gaps, selecting the authority needed to develop, implement, and enforce the plan; and crafting the financial arrangement structure for funding the plan and paying for losses
- Strategically consider and prioritize options to supplement the existing insurance coverage (including identifying how the Commonwealth will meet flood insurance requirements and considering expanded limits on existing policies, a separate excess insurance policy above current limits, or a Parametric policy and/or Catastrophe ("CAT") bond)
- Engage the Insurance Commissioner on certification criteria

Insurance (PRIMAS): The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reported that insurance costs increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Adjustments were made based on agency reported needs for FY2021 and FY2022 (e.g., costs for Department of Housing have been reduced, costs for PRDE and Institute of Puerto Rican Culture have been increased).

Capital expenditures: Centrally-funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow by inflation from a baseline of $324 million FY2022 to FY2040, at which point maintenance capital expenditures increase to $696 million[45] (1.9% of GNP[46]) and growth with GNP, to account for the new level of capital stock the Commonwealth will be responsible for maintaining post-disaster reconstruction (see *Section 4.2* for more information). In FY2022, ~$53 million of the baseline expenses will be appropriated to HTA (as part of the total appropriations), with the remaining ~$271 million for use by the Commonwealth. The 2022 Fiscal Plan includes annual Special Revenue Fund capital expenditures for the Commonwealth agencies (and the Public Buildings Authority) of $6 million for FY2022 and $22 million (based on historical agency needs) for FY2023 onwards.[47]

5.2.8 Reconstruction and restructuring related expenditures

Cost-share for disaster relief funding: Federal funds for FEMA's Public Assistance, Individual Assistance and Hazard Mitigation programs typically require a local match from the entity receiving them (anywhere from 10-25% of funds). In the case of Puerto Rico, the 2022 Fiscal Plan projects that the Commonwealth will need to cover an estimated ~10% of federal Public and Individual Assistance funds that are obligated to them, amounting to $2.6 billion from FY2018-FY2035. (Based on obligation data, instrumentalities are assumed to shoulder a further $1.6 billion in total cost-match expenditures during the same period). A portion of the Commonwealth and instrumentalities' cost-match expenditures are projected to be covered by CDBG funds from

45 Includes General Fund portion of 1.9% of GNP and the HTA Capex appropriation (with the 10% reduction on General Fund unallocated Capex)

46 Corresponds to the state average of capex as percentage of GNP

47 Of this amount, $2 million per year goes to Public Buildings Authority (an IFCU) for recurring needs

FY2020 to FY2035, which amounts to $2.7 billion. As a result, instrumentalities and the Commonwealth are anticipated to need to cover $500 million and $1 billion, respectively, out of pocket.

After accounting for excess funds budgeted for cost share in FY2018- FY2021 (when DRF disbursements were anticipated to be higher), as well as $135 million in unspent cost share funds considered available for future cost share needs, the ultimate out-of-pocket cost share burden for the Commonwealth is $1.2 billion. Moving forward, cost share matching funds are to be used only on approved projects/ requirements under FEMA's Individual Assistance, Public Assistance, and Hazard Mitigation programs. Any unused cost share matching funds in a given fiscal year are to be rolled over the following fiscal year and remain available for use in meeting cost share requirements for approved projects/requirements under FEMA's programs. The restriction of use of cost share matching funds is applicable to funds in the current year as well as any funds rolled over to the subsequent years. The use of these funds must be coordinated with CDBG-DR and CDBG-MIT in meeting cost share requirements.

Restructuring-related costs: Commonwealth restructuring-related expenditures are projected to be $620 million for the period FY2022 to FY2025, and are comprised of all professional fees, including those of the Unsecured Creditors' Committee, the Retiree Committee, the Government (mostly the Puerto Rico Fiscal Agency and Financial Advisory Authority, or AAFAF by its Spanish acronym), and the Oversight Board. Restructuring-related costs will continue after the PoA effective date to support potential litigation and other Title III implementation costs. Fees were benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 2.08% and median ratio of 2.33% relative to 2.48% projected for the Commonwealth (*Exhibit 23*). In total, for the period from FY2018 to FY2026, the restructuring-related expenditures projection is ~$1.6 billion. Uncertainty stemming from the series of recent natural disasters and ongoing COVID-19 pandemic has resulted in an extended restructuring process contributing to the overall estimate. For some perspective, the City of Detroit restructuring (the largest municipal restructuring prior to the Commonwealth of Puerto Rico) took 17 months (July 2013 to December 2014); while the restructuring of the Commonwealth is now approaching 4 years after experiencing hurricanes, which were followed by earthquakes and the impact of COVID-19. Separately, the Oversight Board's operating costs are forecasted to be $75 million per year from FY2022 to FY2026 on a pre-measures basis (or $65 million after measures).

EXHIBIT 23: PROJECTED PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, $M	Total fees and expenses, $M	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	6,400[1]	178	2.8
Residential Capital, LLC	May. 2012	15,000	409	2.7
Sabine Oil & Gas Corp.	Jul. 2015	2,800	79	2.8
Caesars Entertainment Operating Company	Jan. 2015	18,000	258	1.4
Lehman Brothers Holdings Inc.	Sep. 2008	613,000	957	0.2
Lyondell Chemical Company	Jan. 2009	22,000	206	0.9
American Airlines	Nov. 2011	11,000	392	3.6
Washington Mutual, Inc.	Sep. 2008	8,000	271	3.4
Edison Mission Energy	Dec. 2012	5,000	96	1.9
Energy Future Holdings Corp.	Apr. 2014	40,000	450	1.1
Puerto Rico	2017	60,785[2]	1,236[3]	2.0

Summary Statistics

Avg.	2.08%
Max	3.56%
Min	0.16%
Med	2.33%

Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

1 Excludes pensions and other retirement liabilities
2 Excludes pension liabilities and debt issued by PREPA and HTA; for additional details refer to https://oversightboard.pr.gov/debt/
3 Estimated professional fees through FY22 related to Title III proceedings excluding those associated with the PREPA and HTA Title III proceedings.

Emergency reserve: The purpose of the Emergency Reserve fund is to expedite response activities and, upon request, provide the Commonwealth agencies, public corporations, and affected municipalities ("Emergency Reserve Recipients") with capital to quickly begin response activities that exceed their capacity during declared events in Puerto Rico. Starting in FY2019, the Commonwealth must set aside $130 million annually into an emergency reserve that is to total $1.3 billion, or ~2.0% of FY2018 GNP. The methodology supporting this reserve is informed by guidance provided to other Caribbean islands by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 0.5% per year).[48]

Restrictions placed on these funds must ensure that it is only used in case of an extraordinary event like natural disasters or as otherwise agree with the Board; the Commonwealth can only make disbursements with approval from the Oversight Board. Historically, the Oversight Board has authorized use of the emergency reserve in response to the 2017 hurricanes (Maria and Irma), the 2020 earthquakes impacting the southwestern part of Puerto Rico, and the COVID-19 pandemic. Moving forward, a fund advance will require the following:

- The Governor would need to declare a state of emergency
- AAFAF requests Oversight Board access to the emergency reserve fund for a finite period
- Once the Oversight Board authorizes access to the emergency reserve funds; OMB would submit to the Oversight Board requests from the Emergency Reserve Recipients to approve amount and usage of funds

48 IMF, Bahamas Article IV report, 2018

- Amounts approved by the Oversight Board and disbursed to the Emergency Reserve Recipients would need to be replenished not later than the following fiscal year
- Emergency Reserve Recipients that received funds from the emergency reserve fund are required to file with FEMA a Request for Public Assistance (RPA) and Project Worksheet to ensure that any federal reimbursements to Emergency Reserve Recipients are replenished into to the emergency reserve state fund
- Emergency Reserve Recipients are required to update OMB on a quarterly basis on the process of Public Assistance with FEMA
- OMB must provide quarterly reporting to the Oversight Board on the use of authorized funds (see *Chapter 21* for more information)

5.2.9 Expenditure gross-ups

For each of the gross-up revenue items included in *Section 5.1.5* and *Section 5.1.6*, an equivalent expenditure is included in the baseline expense forecast.

5.2.10 Expenses for mobilized employees

The 2022 Fiscal Plan reflects the mobilization of approximately 2,300 employees from PREPA to various public corporations and agencies across the Commonwealth in connection with the transfer of responsibilities to operate and maintain PREPA's Transmission and Distribution System to LUMA (*Section 10.2*). The payroll costs projected in the Fiscal Plan incorporate salaries, as well as adjustments for healthcare, Social Security, and other benefits for these mobilized employees.

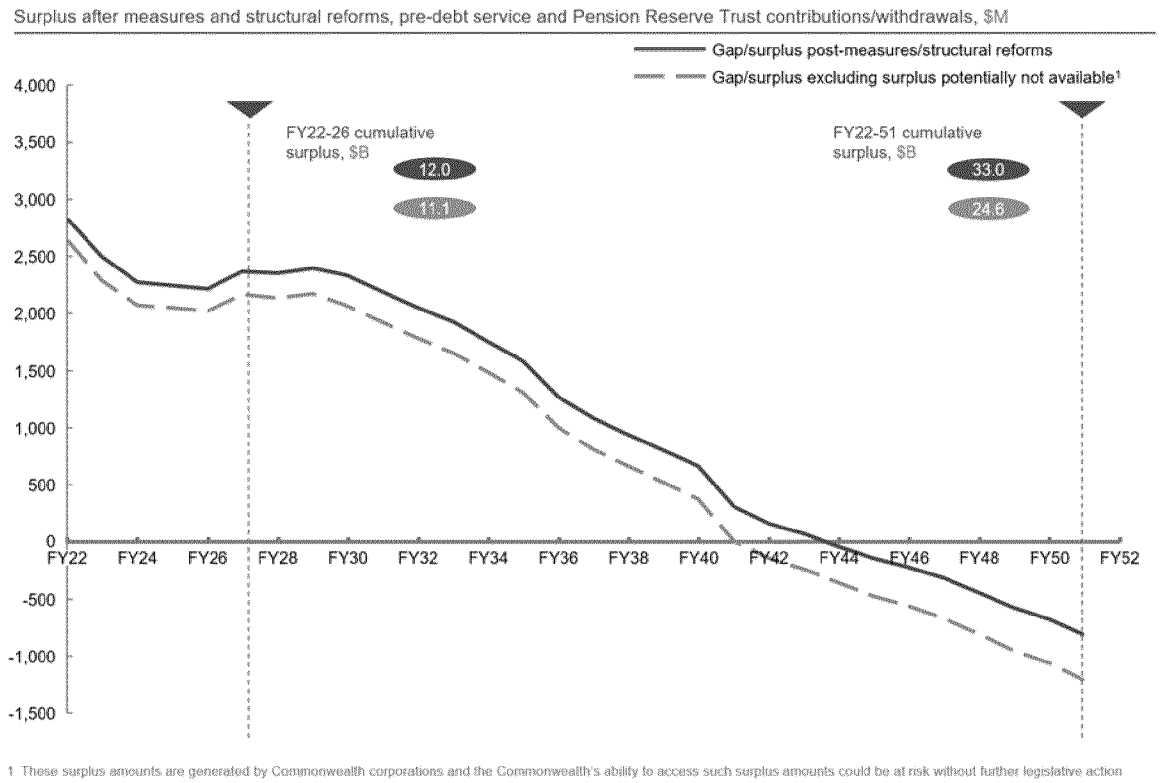
The expenses include an assumption that each agency to which a former PREPA employee was mobilized will make a contribution on behalf of their mobilized employees to the PREPA ERS, in addition to the contributions currently being withheld from the earnings of such employees for their individual employee contributions. The employer contribution amount is assumed to be equal to 15% of payroll for these employees, based on the average estimated cost of additional PREPA ERS pensions that mobilized employees earn in each pay cycle. These funds will be held in a custodial account until the Commonwealth provides, to the satisfaction of the Oversight Board, the following documentation to the Oversight Board:

- A formal written legal opinion identifying the legal basis on which former PREPA employees transferred to the Commonwealth may continue to participate in the PREPA ERS, as opposed to being enrolled in the Commonwealth Act 106 Defined Contribution plan, including the Government's ability or obligation to assume the PREPA ERS employer contributions for mobilized employees. The legal opinion must also identify whether a distinction should be made between employees with 10 or more years of PREPA service and employees with less than 10 years of PREPA service for purposes of determining eligibility to continue participating in the PREPA ERS after mobilization, including identifying whether continuing participation in the PREPA ERS is a vested right under Act 17-2019, and whether such right also applies to employees with less than 10 years of PREPA service (who would not have been vested in their PREPA ERS pension benefit prior to the mobilization date).
- Identification of the point in time at which these contributions will be made and how these contributions will be transferred to and accepted by PREPA ERS.
- A financial model with the basis for the calculation of such contributions (with supporting source documentation) and an estimate of the approximate cost.
- Confirmation that any pension reform measures applied to PREPA ERS would also be applied to mobilized employees.

5.3 Surplus potentially not available for the Commonwealth

The 2022 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematic without further legislative action. As such, the 2022 Fiscal Plan also represents what the surplus, before debt service and Pension Reserve Trust contributions, would be if these funds were inaccessible (*Exhibit 24*).

EXHIBIT 24: SURPLUS POTENTIALLY NOT AVAILABLE FOR THE COMMONWEALTH, PRE-DEBT SERVICE AND PENSION TRUST CONTRIBUTIONS



1 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

Chapter 6. Long-term projections and Debt Sustainability Analysis (DSA)

6.1 Long-term macroeconomic, revenue, and expenditure projections

The 2022 Fiscal Plan projects a post-pandemic recovery in FY2022, followed by limited contraction between FY2023 and FY2026 and real growth again in FY2027 to FY2029 (average real growth of -1.5% between FY2023 and FY2029). As disaster relief funding and the spending of COVID-19 federal and local stimulus funds drop off considerably and structural reform growth rates are muted, GNP growth returns to its historical negative trend starting in FY2029. Population is estimated to steadily decline at an average rate of ~0.9% annually, due to a

combination of outmigration and demographic factors. Inflation is estimated to settle at a long-term run-rate of 1.5%-1.9% as it is expected to gradually approach mainland forecasts.

Most revenues are projected to grow with nominal GNP in the long term.[49] This includes SUT, corporate income tax, personal income tax, non-resident withholding not paid by Act 154 entities and most General Fund revenues. Exceptions include:

- **Alcoholic beverages and cigarette-related tax revenues**, which are expected to grow by inflation and population. This assumption is supported both by relatively constant alcohol consumption in growing economies along with the long-term decline in cigarette consumption both in Puerto Rico and the U.S. mainland.

- **Rum excise on offshore shipments,** which is expected to grow by U.S. mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the General Fund. The January 2022 Certified Fiscal Plan contains an update to the estimation of statutory waterfall revenues, which now incorporates data allowing for a disaggregation of revenues deriving from locally produced and other rum.

- **Non-resident withholding (NRW) and Act 154 revenues,** which will face declines due to U.S. tax reform, supply chain diversification, and patent expirations. This decline had begun during FY2020, with incremental declines forecasted in each year through FY2024 (~40% cumulative decline versus FY2018 baseline). No further declines are anticipated through FY2027; however, additional loss of Act 154 revenues is expected in FY2028-FY2031, such that FY2031 revenues are projected to be ~60% below baseline. This leads to a steady state of $859 million in annual Act 154 revenues beginning in FY2031. NRW revenues associated with Act 154 taxpayers have also declined. Based on past and current performance, NRW payments associated with Act 154 taxpayers are projected at $170 million in FY2022 (~60% below baseline). NRW revenues not related to Act 154 payers continue to grow with nominal GNP and have been adjusted on a non-recurring basis to reflect cyclical outperformance in FY2022.

- **Independently Forecasted Component Units (IFCU) revenues**, which are projected on a line-item basis and grow by the same values as in the short-term projections (largely by nominal GNP, with exceptions for those related to healthcare, population, or other factors).

- **Federal fund revenues,** which grow based on historical and statutory appropriations. The cap for Medicaid matching funds grows by the medical services component of CPI-U and CHIP funding grows proportional to growth of premiums and enrollment. The federal funding cap for Puerto Rico is set at $2.943 billion for FFY2022 according to a September 2021 letter issued by CMS to the PR Medicaid Program. This funding moves the PR Medicaid Program towards a long-term solution and will help alleviate some of the cost pressures the Island could have faced in a potential Medicaid "fiscal cliff" scenario. The federal Medicaid funding will enable the Commonwealth to plan out its expenditures in a more sustainable way.

Just as most revenues grow by GNP, most expenditures grow by Puerto Rico CPI inflation after FY2026. Exceptions include:

- **Medicaid premiums** grow at a faster pace than standard inflation and are instead grown by a PMPM growth rate and population change. The PMPM growth rate is estimated through actuarial analysis of historic utilization trends and projected demographic changes on-Island. While PMPMs decreased slightly in FY2022 (mainly due to lower utilization rates in FY2021 given COVID-19), long-term PMPM growth trends (FY2027-FY2051) are expected to be ~5% on average.

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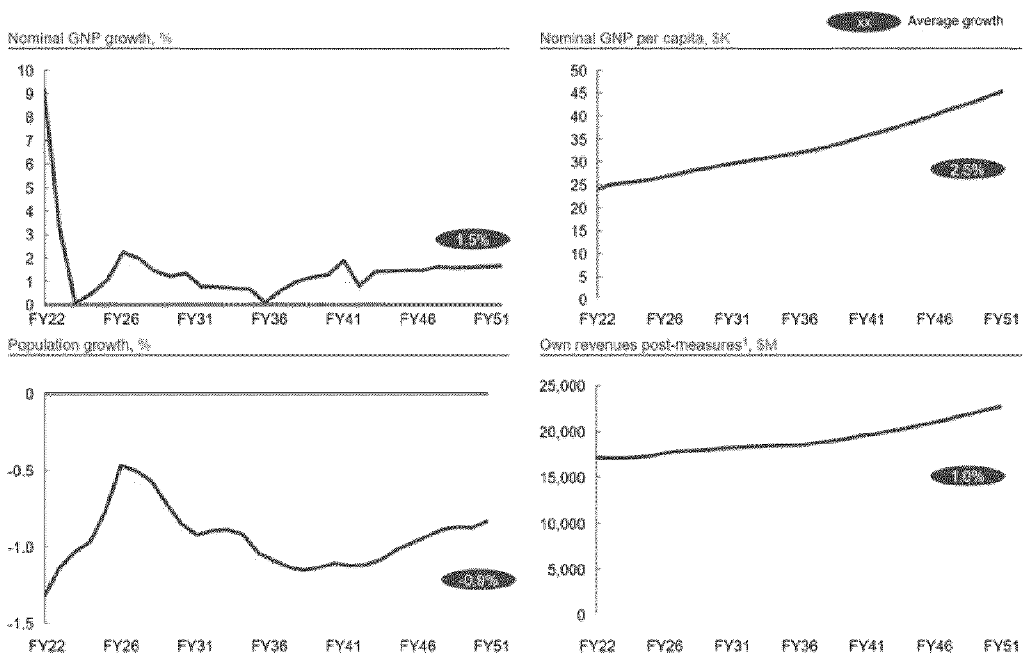
[49] This methodology is consistent with general IMF forecasting approaches and is intended to capture the overall change in consumption, investment and production within the economy

- **Capital expenditures** are anticipated to rise to 1.9% of GNP (in line with the mainland average) by FY2041 to account for an enhanced capital stock needing maintenance after the significant reconstruction efforts in the wake of Hurricanes Maria and Irma. This change in methodology increases the annual Commonwealth average to ~$759 million over FY2041-FY2051, as Puerto Rico must sustain a higher level of maintenance and rely on its own funding for capital investments (rather than disaster relief funding).
- **Cost match for disaster-related federal funding** reaches an average of ~$28 million from FY2027 to FY2035, after full usage of CDBG-DR funds available for local cost matching. The Commonwealth is not responsible for the portion of funds allocated to instrumentalities (e.g., PREPA, PRASA, HTA, UPR).
- **Independently Forecasted Component Units (IFCU) expenditures** are forecasted on a line-item basis. Most grow with standard Puerto Rico inflation with some exceptions, such as healthcare- or claims-related expenditures. Over the long-term, the expenses of some healthcare-related IFCUs (e.g., Cardio) are projected to grow faster than revenues, creating a deficit. This 2022 Fiscal Plan assumes deficits related to healthcare will be funded by the Commonwealth.
- **Fiscal measures** grow by their relevant macroeconomic indicator (e.g., revenues by nominal Puerto Rican GNP, expenditures by Puerto Rican inflation, healthcare measure by health inflation and population).

The long-term macroeconomic and financial projections are shown below. *Exhibit 25* shows the forecasted Nominal GNP, which maintains a positive growth rate for almost all years (mainly due to stable and positive inflation), the estimated rate at which population is expected to decline, the growing Nominal GNP per capita that results from the combination of the first two, and the corresponding trend of own revenues. The estimations of all metrics, as well as corresponding projected revenues, expenditures, and fiscal gap or surplus are shown on *Exhibit 26* for selected years. Finally, *Exhibit 27* shows what these projections are with or without structural reforms.

EXHIBIT 25: FY2022-FY2051 FINANCIAL AND MACROECONOMIC PROJECTIONS



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers and gross up revenues, includes impact of COFINA settlement

EXHIBIT 26: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS

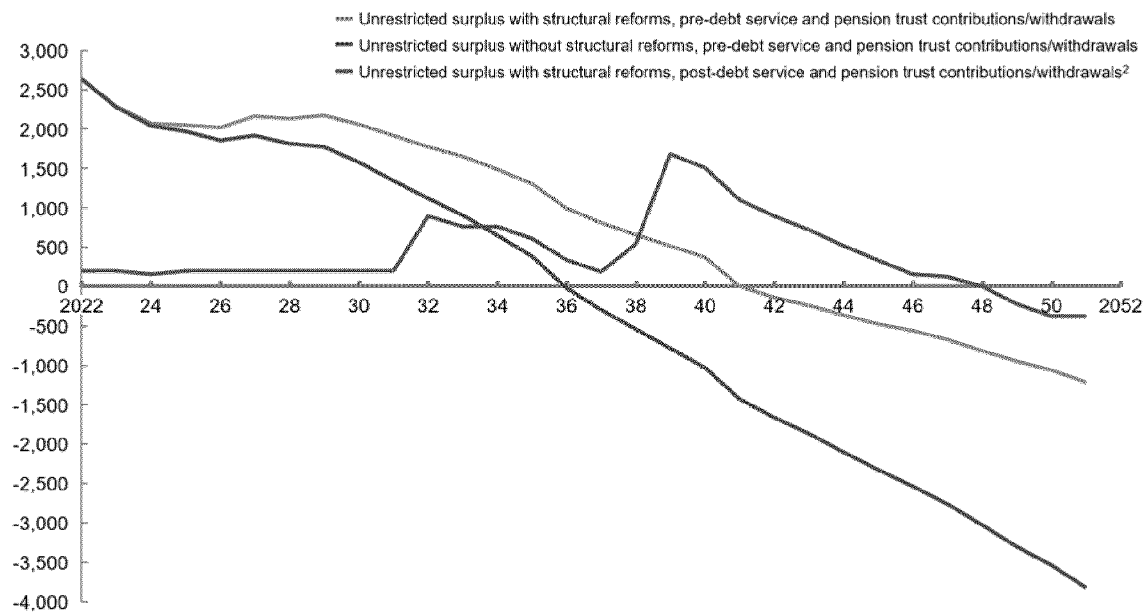
Financial projection detail post-measures and structural reforms, units as labeled

Projection	FY26	FY31	FY36	FY41	FY46	FY51
Population, thousand	3,152	3,055	2,916	2,755	2,612	2,499
Population growth rate, %	-0.8%	-0.8%	-1.0%	-1.1%	-1.0%	-0.8%
Real growth rate[1], %	-0.5%	-0.2%	-1.4%	0.0%	-0.4%	-0.2%
Nominal GNP, $M	82,680	89,716	92,488	98,140	104,786	113,533
Nominal GNP per capita, $	26,230	29,364	31,723	35,618	40,123	45,435
Nominal GNP per capita growth, %	1.8%	2.2%	1.2%	3.0%	2.5%	2.5%
Inflation, %	1.5%	1.5%	1.5%	1.9%	1.9%	1.9%
Disaster relief and infrastructure funding, $M	6,209	4,546	-	-	-	-
Revenues[2], $M	25,663	27,352	28,675	30,859	33,579	36,913
Commonwealth revenues, $M	17,384	18,179	18,526	19,555	20,954	22,772
Federal transfers, $M	8,279	9,174	10,149	11,303	12,624	14,141
Expenditures, $M	(23,450)	(25,166)	(27,403)	(30,550)	(33,802)	(37,729)
Commonwealth-funded expenditures, $M	(15,176)	(15,997)	(17,259)	(19,252)	(21,182)	(23,592)
Federally funded expenditures, $M	(8,274)	(9,169)	(10,144)	(11,299)	(12,620)	(14,137)
Surplus/(Deficit) Post Measures $M	2,213	2,186	1,272	308	(223)	(816)
Surplus potentially not available[3], $M	*192*	*269*	*270*	*300*	*340*	*394*
Unrestricted surplus, post-measures, pre-PoA terms, Pre-Debt Service $M	2,021	1,917	1,001	8	(563)	(1,210)

1 Adjusted for income effects
2 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

EXHIBIT 27: COMPARISON OF UNRESTRICTED SURPLUS BEFORE AND AFTER IMPACT OF STRUCTURAL REFORMS, DEBT SERVICE AND PENSION TRUST CONTRIBUTIONS/WITHDRAWALS

Comparison of annual unrestricted surplus,[1] FY22-FY51, $M



1. Unrestricted surplus is defined as Commonwealth surplus excluding surplus of public entities potentially not available to the Commonwealth
2. See section 6.2 for additional details on debt service and pension reserve trust contributions and withdrawals

The 2022 Fiscal Plan shows surpluses driven by significant federal relief as well as fiscal measures and structural reforms. Long-term declines in annual surplus are driven by health care costs outpacing the growth rate of the Medicaid federal funding cap, a lack of robust implementation of structural reforms captured in earlier Fiscal Plans, the phase out of disaster relief funding, and declining Act 154 revenues.

6.2 Long-term macroeconomic, revenue, and expenditure projections including PoA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico confirmed an amended PoA to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The PoA creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year CBA which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act 106 Defined Contribution program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act 106 accounts outside of Government control, and providing $2,600 to the Act 106 accounts of active Act 1 / Act 447 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.[50]

Exhibit 28 shows one-time cash payments included in the Confirmed PoA for certain bondholders and unsecured claims. This includes payments to labor, 330 health centers, dairy producers, ERS asset purchase and/or transfer.

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[50] Sixth modified eighth amended PoA for the Commonwealth of Puerto Rico. (Accessed January 26, 2022)

EXHIBIT 28: REQUIRED ONE-TIME CASH PAYMENTS IN CONFIRMED POA

PoA Balance Sheet Items, $M	FY22	FY23	FY24	FY25	FY26	FY22-26	FY22-51
GO/PBA Upfront Consideration	(6,624)					(6,624)	(6,624)
GO/PBA PSA Restriction Fee	(234)					(234)	(234)
Consummation Costs	(177)					(177)	(177)
Max. Retail Support Fee	(50)					(50)	(50)
Clawback structuring fee (net of CCDA cash)	(19)					(19)	(19)
ACR Claims Reserve	(229)					(229)	(229)
Estimated Eminent Domain Claims / Takings	(344)					(344)	(344)
Dairy and 330 Med Centers Recoveries	(59)	(59)	(59)			(178)	(178)
ERS GUC Recoveries	(1)					(1)	(1)
CW GUC Recoveries	(200)	(100)	(100)	(100)	(75)	(575)	(575)
Purchase of ERS Assets	(448)	50	50	50	50	(246)	(196)
PRIFA Structuring Fees and Cash Consideration	(260)					(260)	(260)
PBA/DRA Claims and GUC Recoveries	(59)					(59)	(59)
Estimated System 2000 Segregated Funds	(1,377)					(1,377)	(1,377)
Estimated Acts 1 & 447 DC Employer Contributions	(100)					(100)	(100)
Estimated Union POA Support Fees and Bonuses	(20)					(25)	(25)
Initial Pension Trust Contribution	(5)					(25)	(25)
Total	(10,205)	(109)	(109)	(50)	(25)	(10,497)	(10,447)

Exhibit 29 shows a breakdown of surplus and unrestricted surplus before and after projected payments for debt service, CVIs, and pension trust contributions and withdrawals. It excludes one-time cash payments. The 2020 Certified Fiscal Plan serves as the baseline for measuring overperformance on the SUT CVI. The 2021 Certified Fiscal Plan serves as the baseline for measuring overperformance on the RUM CVI. The 2022 Fiscal Plan projections will serve as a baseline for measuring overperformance for the Upside Participation Bonus to eligible employees as well as the basis to calculate the pension trust contributions established by the terms of the PoA. The updated FY2022 surplus reflects the impact of the minimum $2,000 bonus per employee per year for five fiscal years for AFSCME-represented employees. Therefore, any potential incremental amounts based on the Excess Cash Surplus formula established by the terms of the PoA have a current projection for bonuses of $0.

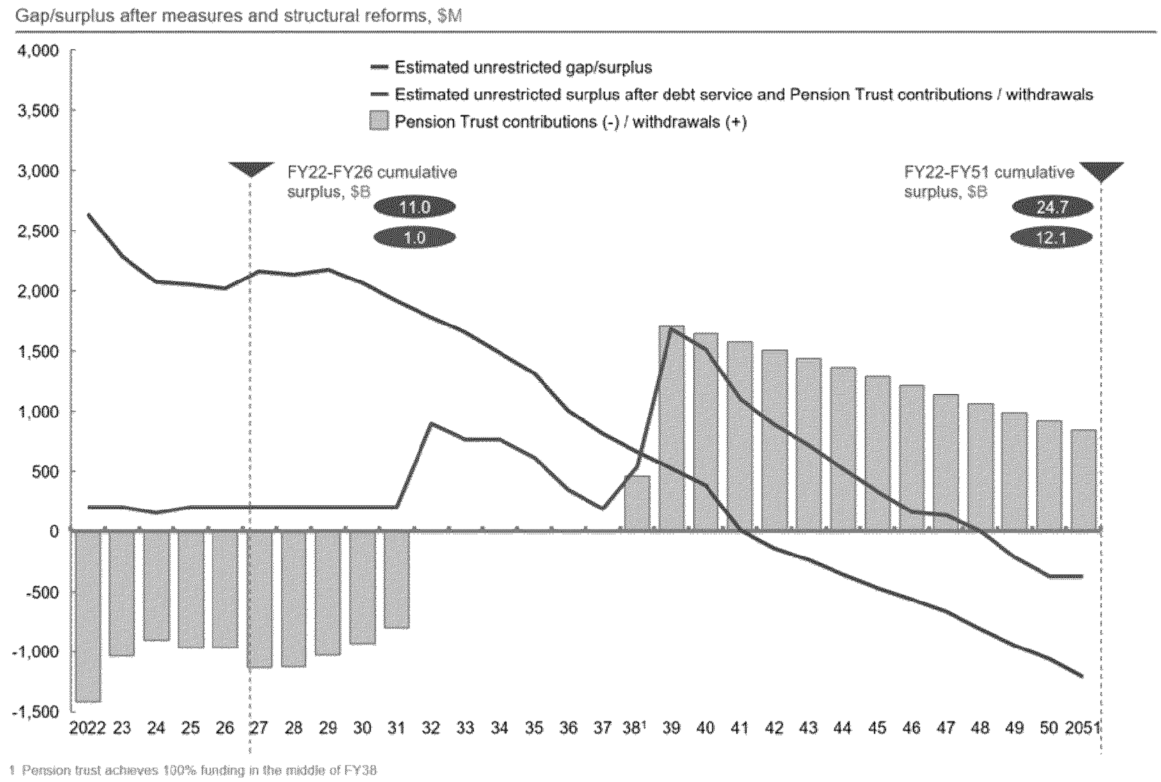
EXHIBIT 29: PROJECTED COSTS ASSOCIATED WITH CONFIRMED POA (EXCLUDING ONE-TIME CASH PAYMENTS)

In $M	FY22	FY23	FY24	FY25	FY26	FY22-26	FY22-51
Updated 2022 surplus[1]	2,827	2,495	2,270	2,246	2,213	12,052	33,045
Updated 2022 restricted surplus	187	207	198	193	192	978	8,382
Updated 2022 unrestricted surplus	2,640	2,288	2,072	2,053	2,021	11,075	24,663
Plan of Adjustment projections							
SUT CVI Costs	(224)	(276)	(256)	(253)	(241)	(1,250)	(8,260)
Rum CVI Costs	(5)	(5)	(5)	(5)	(5)	(25)	(162)
Unrestricted surplus for Pension Trust calculation	2,411	2,007	1,812	1,796	1,775	9,800	16,241
Base Pension Trust calculation	(1,206)	(1,004)	(906)	(898)	(887)	(4,900)	(8,826)
Debt Service, excl. COFINA	(790)	(771)	(752)	(625)	(604)	(3,543)	(10,915)
Unrestricted surplus before additional pension deposits/withdrawal	415	232	154	273	283	1,358	(3,500)
Additional Pension Trust contributions	(215)	(32)	-	(73)	(83)	(403)	(1,494)
Pension Trust withdrawals	-	-	-	-	-	-	17,133
Total PoA costs[2]	(2,440)	(2,088)	(1,918)	(1,853)	(1,821)	(10,120)	(12,523)
Unrestricted surplus after debt service and Pension Trust contributions / withdrawals	200	200	154	200	200	954	12,140
Memo: Total Pension Trust contributions (excl. withdrawals)	(1,421)	(1,036)	(906)	(970)	(971)	(5,304)	(10,320)

1. FY22 surplus is higher than FY23 onward due to a combination of Federal Medicaid funding, Act 152 revenues slowing from FY23 onward, and a higher level of incremental investment starting in FY23
2. The FY22 Fiscal Plan will set the baseline for union bonus participation in outperformance, which would also be captured under PoA expenses

Exhibit 30 shows the estimated surplus before and after accounting for projected cash flows from debt service, pension trust reserve payments and withdrawals, as well as bonuses for eligible employees. The exhibit excludes one-time cash payments. The Commonwealth runs a ~$200 million surplus in FY2022-FY2031, the period during which the PoA stipulates Pension Reserve Trust funding. Withdrawals from the pension trust are projected to begin in FY2038, after it is projected to be fully funded.

EXHIBIT 30: ANNUAL SURPLUS BEFORE AND AFTER DEBT SERVICE AND PENSION TRUST (EXCLUDING ONE-TIME CASH PAYMENTS)



The 2022 Fiscal Plan PoA projects sustained deficits in unrestricted surplus after debt service and pension trust contributions / withdrawals beginning in FY2049 onward. The Government will be required at some point to take additional measures that go beyond the FY2022-26 framework of this 2022 Fiscal Plan as the Puerto Rico Constitution requires the Government to operate within a framework of fiscal balance. Accordingly, what follows are a set of options that can be considered to obtain fiscal balance in the out-years. Some of these reforms – which would reduce deficits and therefore make funds available for a variety of potential uses, including investment in the people of Puerto Rico – have been proposed by the Oversight Board, but have not been adopted. The Government must take up these reforms and implement them to realize their benefits.

- **Private sector labor reform,** generating an additional 0.50% GNP growth over two years, by repealing Law 80 of May 30, 1976, which would make Puerto Rico an employment at-will jurisdiction, similar to its principal competitor mainland states, such as Florida. This would reduce the cost of hiring workers on the Island, improving the environment for local businesses and potentially attracting additional investment from the mainland into Puerto Rico. The reform is projected to increase the FY2022-51 surplus by ~$13 billion if implemented in FY2031 and by ~$4 billion if implemented in FY2041.
- **Ease of doing business reform,** generating an additional 0.15% GNP growth, based on instituting trading across borders reform, and repealing restrictive and inefficient regulations, and implementing a comprehensive reform of the Transportation system, similar to the one described in *Chapter 11*, which would contribute to unlock greater impact across all other ease of doing business initiatives, allowing Puerto Rico to better compete for new investments with jurisdictions around the world. The FY2022-51 surplus is projected to increase by ~$8 billion if implemented in FY2031 and by ~$2.5 billion if implementation takes place in FY2041.

- **Overhaul of the tax system of Puerto Rico** to stimulate growth by lowering the statutory marginal tax rates and broadening the tax base by eliminating many exemptions, deductions, credits, and incentives. This would simplify the tax paying structure and process, improving the business environment and delivering long-term growth benefits up to 0.5% spread over five years. The reform is projected to increase the FY2022-51 surplus by ~$11 billion if implemented in FY2031 and by ~$3 billion if implementation takes place in FY2041.
- **Growing the pharmaceutical and medical devices manufacturing sector** given the unique opportunity for Puerto Rico to be a center of excellence and play a leading role in the national portfolio of locations for expanded domestic manufacturing in this sector. The physical infrastructure, human capital, and regulatory processes are already established and well positioned. Previous analyses published by the Board had shown the potential value on economic growth and employment that this effort could have.

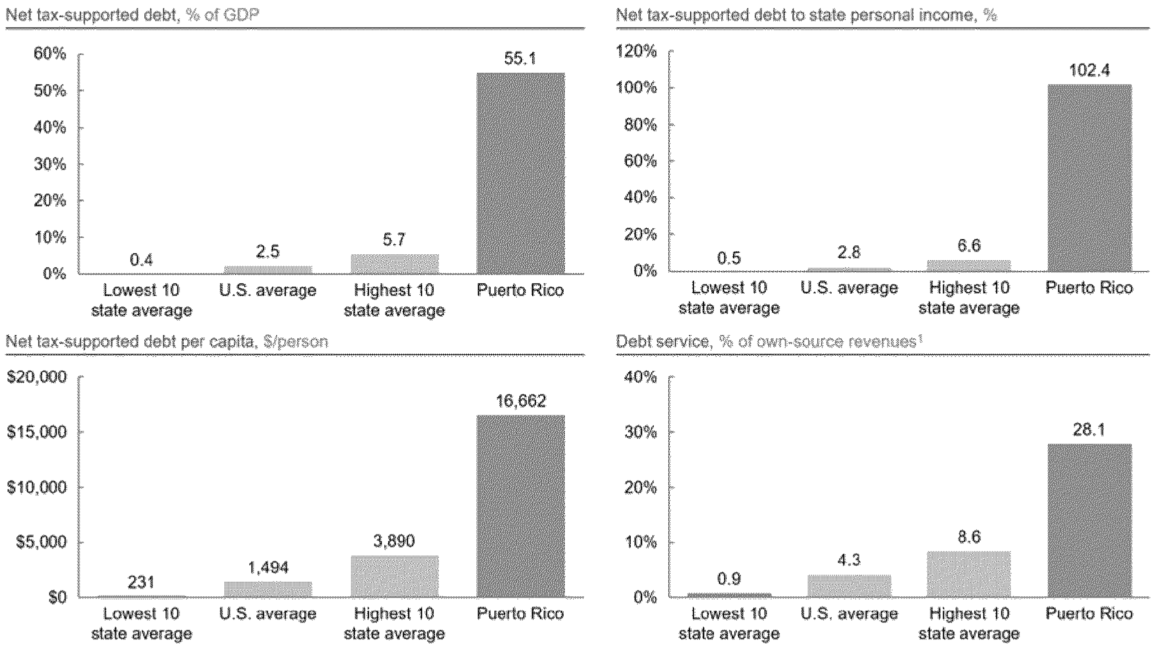
Risks to the long-term projections in the 2022 Fiscal Plan. While the 2022 Fiscal Plan projects that ~$14.4 billion in surplus will be generated from FY2022-FY2048, there are several variables that have a material impact on the long-term financial projections. The extent to which the economic activity will recover from the COVID-19 pandemic impact and the time it will take to return to pre-pandemic levels remain highly uncertain and could prove to be narrower and longer-lasting than anticipated. Moreover, revenues could be compromised through lower growth generated by delays or failures to implement structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island or other external shocks or natural disasters. Finally, expenditures could be impacted if, once the Oversight Board is terminated, the Government reverses its focus on fiscal discipline and allows Government expenditures to increase.

6.3 Debt Sustainability Analysis (DSA)

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money borrowings for ongoing infrastructure investment. The analysis begins with the 2022 Fiscal Plan and is then informed by the debt sustained by the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of long-term projections and the peer metrics. Net tax-supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues). Prior to the enactment of PROMESA, Puerto Rico had approximately $45 billion in tax-supported debt with a declining economy and no guarantee of sustained federal funding. Net tax-supported debt is comprised of GO, PBA, COFINA, PRIFA, HTA, CCFA, ERS, Public Finance Corporation (PFC), and other intergovernmental loans.

U.S. states as peer comparables: Like U.S. states, Puerto Rico does not control its own currency, has no access to IMF restructuring support programs or similar international sovereign relief funding packages, and traditionally has been reliant on access to the same long-term municipal bond market used by mainland U.S. states to finance their capital needs. Puerto Rico's bonds are also rated by the same rating agency analyst groups that assign ratings to mainland U.S. states, not by foreign sovereign bond rating analysts. For these and other reasons, Puerto Rico has more similarities to U.S. states than to sovereign nations. By virtually any measure tracked by the rating agencies, Puerto Rico's debt levels prior to filing for Title III protection were clear outliers relative to U.S. state peers (*Exhibit 31*).

EXHIBIT 31: U.S. STATES AS COMPARABLES



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers
NOTE: Puerto Rico benchmark metrics per Moody's debt service as % of revenues based on 2015 own-source government revenues, personal income reflects FY18 preliminary estimates from Commonwealth. In Puerto Rico's case, net tax supported debt totals approximately $45 billion and includes GO, PBA, COFINA, PRIFA, HTA, CCDA, ERS, PFC, and UPR

Source: Moody's investors service, "Medians – Flat debt total signals cautious borrowing, despite infrastructure needs from June 3, 2019," Puerto Rico data from Moody's investors service, "Medians – Total State Debt Remains Essentially Flat in 2017 from May 3, 2017"

While some observers note that Puerto Rico residents do not pay federal income taxes, they do pay Social Security and Medicare taxes, and the low per capita income levels would place most local residents in a tax bracket where they would otherwise pay little or no federal income tax. Meanwhile, federal reimbursement levels provided to Puerto Rico for the largest Government spending programs (including Medicaid and transportation) are capped at levels well below the FMAP and federal highway reimbursement levels provided to comparably sized and wealthier states. Puerto Rico's residents pay graduated income taxes to Puerto Rico at brackets comparable to the federal income tax rates, thereby providing the funds needed to provide services to the Puerto Rico resident population, which is far poorer than the population of any U.S. state. Yet Puerto Rico receives far less federal support.

Metrics for debt sustainability: Viewing U.S. states as the most comparable group for benchmarking Puerto Rico, the DSA uses the debt ratio metrics in the June 14, 2021 Moody's Investors Service (Moody's) report "Medians – State debt rose 2.5% in 2020 spurred by pandemic-linked borrowing" in *Exhibit 32* to develop a range of levels for sustainable debt capacity focused on Maximum Annual Debt Service (MADS) levels for Puerto Rico on its restructured net-tax supported debt. The key debt ratios for the ten lowest indebted states, the 25 lowest indebted states, the 25 highest indebted states, the ten highest indebted states, and the mean for all U.S. states are shown below (*Exhibit 32*).

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EXHIBIT 32: DEBT SERVICE RATIO

Debt Service, % of own-source revenues[1]		
Lowest 10		0.9
Lowest 25		2.0
Mean		4.1
Top 25		6.3
Top 10		8.5
2022 Commonwealth PoA MADS[1]		6.5
1	Connecticut	14.1
2	Massachusetts	10.3
3	Hawaii	10.3
4	New Jersey	10.1
5	Kentucky	7.4
6	Illinois	7.3
7	Washington	6.9
8	Maryland	6.8
9	Rhode Island	6.2
10	Mississippi	5.7

1 The 2021 Plan of Adjustment's MADS level of $1.15 billion, which is inclusive of new Commonwealth general obligation debt and previously restructured COFINA debt, is 6.5% using the Fiscal Plan's 2022 projected revenues.

Maximum annual debt service cap on fixed payment debt: The implied debt capacity and expected growth in debt capacity is the Oversight Board's determination of the highest debt service levels that would be compatible with economic sustainability, fiscal responsibility, and the regaining of market access. The maximum MADS level is derived from both the 2022 Fiscal Plan cash flow projections and Moody's state rating metric called the "Debt Service Ratio." The Debt Service Ratio is the ratio of total payments due in a year on all existing net tax-supported debt over that state government's debt policy revenues in that year. The debt policy revenues for the Commonwealth are forecast to be $17.7B in FY2022 and to increase to $23.9B by FY2051.[51]

The Moody's report indicates that the average Debt Service Ratio for all U.S. states is 4.1% (see *Exhibit 32*). The Moody's report indicates that the average Debt Service Ratio for the top 10 most indebted states is 8.5%. The Moody's report indicates that the average Debt Service Ratio for the top 25 most indebted states is 6.3%. The Moody's report indicates that the average Debt Service Ratio for the 25 lowest indebted states is 2.0%. To the extent any of these Debt Service Ratios is used to set a MADS cap on the restructured debt and the Primary Surplus is below the MADS level, then the debt service due on fixed payment debt would need to be set at the lower of the amount available for debt service or the MADS limit.

Debt Management Policy: The Commonwealth's Plan of Adjustment contains an ongoing Debt Management Policy that will lay the foundation to fiscal responsibility critical for future fiscal stability and sustainable economic growth. Specifically, the Debt Management Policy includes a number of controls on the current and future indebtedness of the Commonwealth for net-tax supported debt that are described below. The definition of net-tax supported debt includes both the General Obligation bonds, the previously restructured COFINA debt and any debt the

51 Calculated as adjusted revenue post measures (excluding federal transfer) plus COFINA debt service. COFINA debt service figures based on May 2021 COFINA Certified Fiscal Plan. See appendix for forecast annual debt service revenue through FY2051 (*Section 24.2*).

Commonwealth may issue in the future that is supported by its taxes. The 2022 Fiscal Plan does not anticipate the Commonwealth borrowing for any purpose over the next five years.

Debt Management Policy concepts:

- Maximum annual debt service on all net-tax supported debt is limited to 7.94% or lower than the prior year's debt policy revenues
- Any new long-term borrowing must be for capital improvements only
- Newly issued debt must begin to amortize within two to five years of issuance
- Newly issued debt must have a maximum maturity of 30 years or less
- A refinancing of any debt must provide cash flow savings in every fiscal year and produce positive present value savings[52]

Restoration of cost-effective market access: As Puerto Rico seeks to regain cost-effective capital markets access, rating analysts and investors will demand that the Government demonstrate improvement in all four core areas of creditworthiness identified by Moody's: (i) the economy, (ii) Government finances, (iii) governance, and "fixed cost" debt service, and (iv) pension expenditures. The Government must adhere to structurally balanced budgets reflecting ongoing fiscal discipline and return to the timely publication of audited financial statements and related disclosure information. Together, these and other measures outlined in the 2022 Fiscal Plan can chart a path to restoring Puerto Rico's market access.

[52] Refinancings in direct response to a natural disaster are permitted not to have cash flow savings in every year, cannot increase future debt service by more than 10%, and must be repaid within 10 years.

PART III: Restoring growth to the Island

The fiscal and economic turnaround of Puerto Rico cannot be accomplished without the implementation of structural economic reforms that promote the transformation of the Island's economy and its workforce. Puerto Rico struggles from an uncompetitive labor market, unreliable energy and infrastructure, regulatory and other burdens that hinder business productivity, and low educational outcomes and workforce support – all of which prevent it from competing in a global economy and from attaining positive economic growth. Structural reforms—those that seek to strengthen the fundamental drivers of economic growth to encourage job creation, investment, and increased productivity—could transform Puerto Rico's future. Years of successive natural disasters and health crises further underscore the need for comprehensive Government action as outlined in this 2022 Fiscal Plan to reverse the economic challenges that have plagued the Island and its people for far too long. If implemented quickly and widely, structural reforms are projected to drive real economic growth, reversing decades-long economic challenges and enabling the Island's economy and its people to flourish.

Specifically, the Government must pursue the following structural economic reforms to achieve their forecasted economic impact:

- **Human capital and welfare reforms** that will improve the well-being and self-sufficiency of all Puerto Rico residents, increase the quality and competitiveness of the workforce, enable investment, and facilitate the economic modernization of the Island, resulting in a cumulative GNP impact of 0.15% by FY2025.
- **K-12 education reforms** that will position all students to succeed in school and upon graduation by raising the quality of the Island's public schools, resulting in an additional 0.01% GNP impact per year starting in FY2037 (i.e., reaching 0.15% by FY2051).[53]
- **Ease of doing business reforms** that will improve conditions for economic activity and business vitality, attracting new investment and creating jobs, resulting in a cumulative GNP impact of 0.30% by FY2026.
- **Power sector reforms** that will improve the availability, reliability, and affordability of energy for families and businesses, resulting in 0.30% cumulative GNP impact by FY2026.
- **Infrastructure reform and capital investment** that will improve the flow of goods, services, information, and people across the Island.

Unfortunately, while the Government has faced numerous unexpected disasters and crises that impeded implementation, it has also, at times, rejected the deadlines outlined in the Fiscal Plans. Together, this has resulted in delayed implementation on most of the identified structural reforms. For example, the Government has:

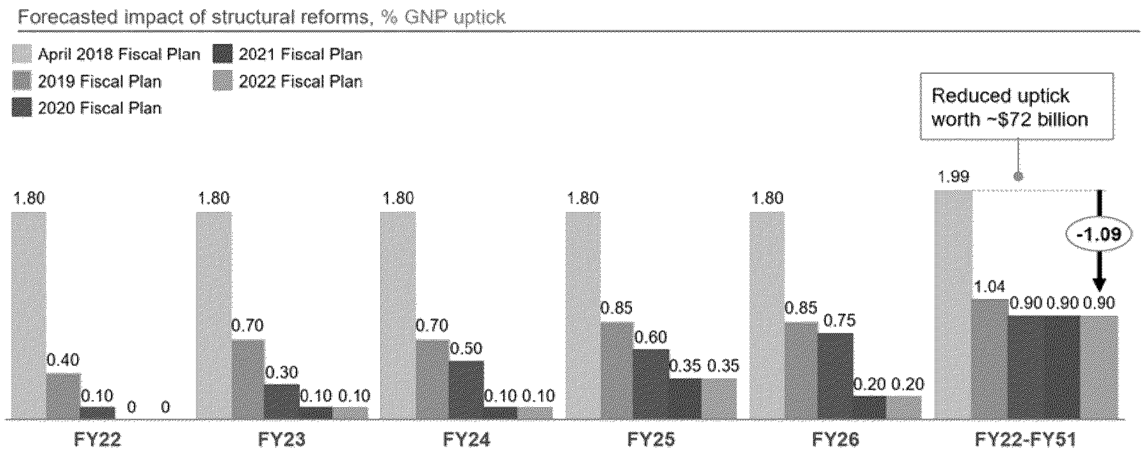
- Implemented the Earned Income Tax Credit (EITC) but without a robust campaign to raise awareness of the new benefit and encourage work in the formal sector
- Delayed implementation of the complementary Nutrition Assistance Program (NAP) work requirement
- Made little progress in strengthening the Island's workforce development programs
- Increased on-Island land freight charges and expanded the regulation across incremental sectors of the economy, rather than deregulating as outlined in this and previous Fiscal Plans

[53] Education reforms are projected to generate GNP impact after the first kindergarten class to benefit from those reforms completes their first year in higher education or the workforce. As such, the 2022 Fiscal Plan assumes that the implementation of K-12 education reforms in FY2024 will generate GNP uptick starting in FY2037

- Implemented very few of the required ease of doing business reforms with sufficient progress to make the Island substantially more competitive and attractive to investors
- Undertaken almost no discernible efforts to reform the Island's K-12 education system, a situation that is partially explained but also exacerbated by the COVID-19 pandemic

These delays have already diminished the projected economic uptick and revenues associated with structural reforms. Had the structural reforms above been implemented at the pace and scale forecasted in the 2019 Fiscal Plan, the Government would have generated 0.14% in additional GNP uptick, worth another $12 billion in tax revenues by FY2051. This shortfall is even more pronounced relative to the structural reform impact forecasted in the April 2018 Fiscal Plan, whereby the Government would have generated 1.09% in additional GNP uptick, worth another $72 billion in tax revenues by FY2051 (*Exhibit 33*). Not only have the residents of Puerto Rico lost opportunities to gain new skills, experiences, and education, but the Island has lost time in attracting incremental investment that would produce jobs and tax revenues to be reinvested again into the people of Puerto Rico.

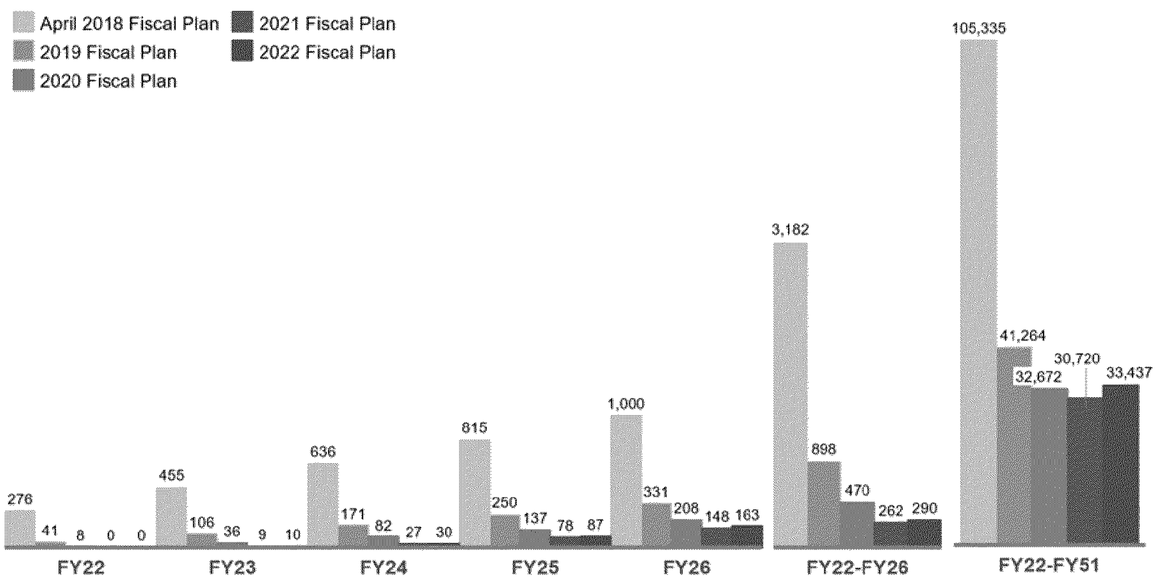
EXHIBIT 33: COMPARISON OF GNP UPTICK FROM STRUCTURAL REFORMS ACROSS FISCAL PLANS



Given the disruption and hardship brought about by the COVID-19 pandemic, the economic uplift that could be generated through structural reforms matters now more than ever. Urgent and comprehensive Government action is needed to promote economic recovery and opportunity for all local residents. If implemented as specified in this 2022 Fiscal Plan, structural reforms are projected to collectively generate an invaluable 0.75% GNP uptick by FY2026, as well as 0.90% in total GNP growth and more than $30 billion in additional Commonwealth revenues by FY2051. As discussed in *Chapter 6*, these revenues will play a key role in helping the Government address budget shortfalls in the medium- and long-term.

EXHIBIT 34: IMPACT OF STRUCTURAL REFORMS ON COMMONWEALTH SURPLUS

Impact of structural reforms[1], $M



1. Structural reforms begin in FY2022, and thus have no impact from FY2018-FY2021

Governance indicators

Successfully implementing structural reforms to support fiscal revenues requires strong governance across Puerto Rico's public sector. A higher standard of governance can make implementation more efficient and cost-effective and can boost the impact of reforms on growth and development. The structural reforms recommended in this 2022 Fiscal Plan bring governance quality in Puerto Rico into focus. The World Governance Indicators (WGI), published by World Bank researchers, provide independent annual scores which can be used to monitor governance standards over time and relative to peers.

The WGI scores are formed by synthesizing a wide range of primary data on surveyed perceptions across six categories:

- Voice and Accountability: The degree of public participation in the selection of government, as well as freedom of expression, freedom of association, and a media freedom.
- Political Stability: The likelihood of political instability or violence, including terrorism.
- Government Effectiveness: The quality of public services, quality and independence of the civil service, the credibility of policy formulation and implementation.
- Regulatory Quality: The ability of the government to formulate and implement sound policies and regulations that promote private sector development.
- Rule of Law: The degree of confidence in, and adherence to, the countries' laws, including contract enforcement, property rights, police and judicial effectiveness, and rates of criminality.
- Control of Corruption: The extent to which public power is used for private benefit, as well as "capture" of state power by private interests.

Exhibit 35 shows Puerto Rico's WGI scores for 2020 (the most recent available data) against several peers and benchmarks, showing that, in certain respects, Puerto Rico starts from a

comparatively strong base. On average, Puerto Rico has higher scores than peers in Latin America, particularly with respect to political stability, regulatory quality, and rule of law – all of which are important determinants of long-term investment attractiveness. In these categories Puerto Rico also scores in a similar range to smaller Eurozone economies, which offer a useful benchmark because, like Puerto Rico, they lack control over domestic monetary conditions, are linked with much larger trading partners, and have similar per-capita GDP levels.

However, there is significant room for improvement. Puerto Rico lags the U.S. and OECD average in all governance indicators and is behind Eurozone economies in categories linked more closely with the implementation of reforms, such as government effectiveness and control of corruption. Moreover, *Exhibit 36* shows that Puerto Rico's scores have been declining across indicators since 2000, with a sharper drop-off after 2015, with a corresponding widening of the gap between Puerto Rico and the U.S. Mainland. A continued decline in governance scores would raise questions over the ability of the Puerto Rican government to enact timely and effective reforms.

In order to successfully implement the recommended structural reforms and maximize their impact on growth, development, and fiscal revenues, improvement in Puerto Rico's governance is required. Targeted efforts to arrest and reverse the recent deterioration of government effectiveness and control of corruption, supported by close monitoring of governance benchmarks, would likely yield results.

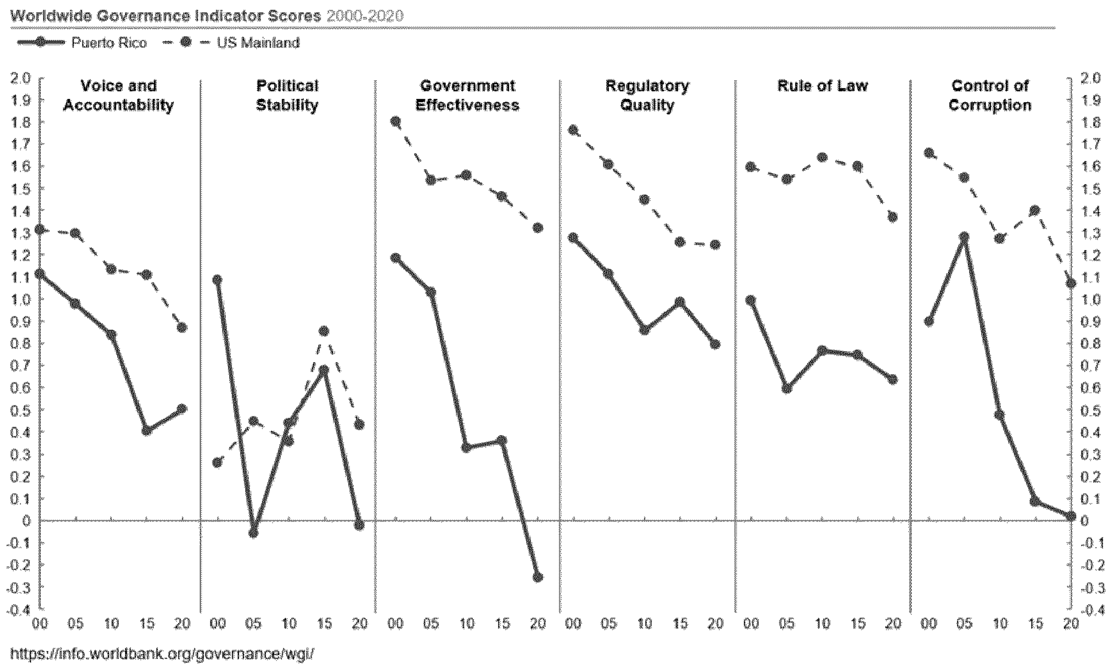
EXHIBIT 35: WORLD GOVERNANCE INDICATOR SCORE COMPARISONS

World Governance Indicator Scores 2020

Country	Peer classification	*Average WGI Score*	*Voice & Accountability*	*Political Stability*	*Government Effectiveness*	*Regulatory Quality*	*Rule of Law*	*Control of Corruption*
Puerto Rico		**0.35**	**0.50**	**0.43**	**-0.26**	**0.79**	**0.63**	**0.02**
United States	Benchmark	0.97	0.87	-0.02	1.32	1.24	1.37	1.07
OECD Average		1.19	1.17	0.67	1.33	1.29	1.33	1.35
Argentina	LatAm peers	-0.12	0.59	0.04	-0.22	-0.57	-0.47	-0.12
Panama		0.08	0.57	0.23	0.07	0.32	-0.21	-0.51
Chile		0.89	1.02	0.07	0.99	1.05	1.07	1.15
Brazil		-0.21	0.26	-0.42	-0.45	-0.16	-0.18	-0.34
Colombia		-0.14	0.15	-0.67	0.04	0.32	-0.49	-0.18
Malta	Small Eurozone economies	0.94	1.12	0.95	1.04	1.22	0.92	0.37
Cyprus		0.67	0.91	0.29	0.88	1.00	0.58	0.38
Slovak Republic		0.66	0.88	0.64	0.54	0.78	0.68	0.44
Slovenia		0.93	0.94	0.71	1.17	0.92	1.07	0.81
Greece		0.41	0.97	0.13	0.44	0.55	0.32	0.06

Source: https://info.worldbank.org/governance/wgi/

EXHIBIT 36: HISTORICAL WORLDWIDE GOVERNANCE INDICATOR SCORES



Chapter 7. Human capital and welfare reform

7.1 Basis for human capital and welfare reforms

Increasing the productivity of Puerto Rico's labor force is essential to creating growth. There are several structural reasons why Puerto Rico is lagging behind its potential, and they each must be addressed with tailored actions.

In 2020 Puerto Rico's formal labor force participation rate was on average 40.2%, among the lowest in the world and far below U.S. and Caribbean averages.[54] As the Congressional Budget Office states, labor force participation is an important component of economic growth, since it allows firms to expand employment and increase production and has an important impact on fiscal and budget trends.[55] Puerto Rico has an opportunity to increase this rate and must aspire to reach at least the rate of the lowest U.S. state (West Virginia, with 55%), to provide its economy with the dynamism it requires to foster growth.[56]

Puerto Rico's low labor force participation is a function of a wide range of factors, including suboptimal eligibility criteria for welfare programs and underperforming human capital development systems, among others. This low level predates the 2017 hurricanes, the 2019-20 earthquakes, the COVID-19 pandemic, and even the economic downturn that began in 2006. According to the World Bank, Puerto Rico's labor force participation rate has ranked in the

54 For comparison, the U.S. has a 61% labor force participation rate. In the Caribbean, the Dominican Republic's labor force participation rate was 62% in 2020. Jamaica and Haiti's rates were even higher (64% and 65%, respectively). See the World Bank Group via International Labor Organization, "Labor force participation rate, total (% of total population ages 15+)," 2020; and Departamento del Trabajo y Recursos Humanos, "Empleo y Desempleo en Puerto Rico," Diciembre 2020

55 Congressional Budget Office, Factors Affecting the Labor Force Participation of People Ages 25 to 54, 2018

56 U.S. Bureau of Labor Statistics, "Employment status of the civilian noninstitutional population 16 years of age and over by region, division, and state, 2019-2020 annual averages," 2020

bottom-20 of more than 200 global economies since at least 1990 and in the bottom-15 since 2009.[57]

Suboptimal eligibility criteria for welfare programs: The current design of welfare programs may disincentivize some residents from pursuing work within the formal economy in order to ensure sufficient nutritional support, housing, and healthcare.[58] For instance, current welfare eligibility guidelines sharply phase-out beneficiaries as their income rises, informally taxing workers for seeking work within the formal economy.[59] This phenomenon is particularly pronounced in the case of recipients of public housing assistance: even securing a *part-time* minimum wage job can render a beneficiary ineligible for public housing, potentially forcing some beneficiaries to choose between formal sector work and keeping their homes.[60] Working with the Federal Government to revise eligibility guidelines and other policies that encourage residents to work could help resolve these issues.

Underperforming human capital development systems: In 2012, Puerto Rico participated for the first time in the PISA test (Programmed for International Student Assessment) and participated again in 2015. The test, sponsored by the Organization for Economic Cooperation and Development (OECD), was administered by the local Department of Education. It tests the knowledge and skills of students through a uniform metric that was internationally agreed upon. It measures the ability of students aged 15 to use their reading, mathematics, and science knowledge skills to meet real-life challenges. At the international level, Puerto Rico scored, on average, in all three areas below the U.S. and OECD member countries.[61] These relatively low levels of proficiency represent a challenge for Puerto Rican students to graduate from secondary and high school. Failure to graduate is often correlated with a higher probability of joining the informal labor sector and receiving lower wages.[62]

Worker training programs in Puerto Rico, meanwhile, are managed in a disjointed manner by 15 local workforce boards. Strengthening the Island's education system, as well as the workforce development programs, could mitigate these challenges and help ensure that all local residents are able to participate in the current and future economy. The significant number of workers displaced due to the pandemic adds another level of urgency to improving workforce development in Puerto Rico.

Unfortunately, the Government has delayed the implementation of many human capital and welfare reforms intended to address these structural challenges, reducing the potential economic uplift to the Island, and delaying the opportunity for residents in need of this critical support. Continued Government inaction will further jeopardize the development of Puerto Rico's human capital, the opportunities available to each resident of Puerto Rico for personal development and economic self-sufficiency, and the projected GNP uptick and its associated increases in tax revenues.

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57 See the World Bank Group via International Labor Organization, "Labor force participation rate, total (% of total population ages 15+)," 2020

58 Cordero-Guzmán, "The production and reproduction of poverty in Puerto Rico," in Nazario, ed. *Poverty in Puerto Rico: A Socioeconomic and Demographic Analysis with data from the Puerto Rico Community Survey* (2014), 2016

59 For example, a single parent with two dependents and an annual income below $4,900 was eligible to receive up to $4,229 dollars in annual Nutritional Assistance Program (NAP) benefits in 2016. But, should this parent work 35 hours per week at minimum wage—generating approximately $12,180 in annual earnings, they would become ineligible for NAP benefits. Net of taxes on their earning, full-time formal sector work would increase household income by only $7,002—the equivalent of a $3.86 effective hourly wage. Effective hourly wage income equals income received from formal sector work minus income lost from loss of benefits

60 The U.S. Department of Housing and Urban Development (HUD) sets income limits that determine the eligibility of applicants for assisted housing programs. For U.S. states, the limit to be considered an "extremely low-income family" is determined by HUD using the Department of Health and Human Services (HHS) poverty guidelines. However, an alternative formula is used to define an extremely low-income family for Puerto Rico—30% of the median family income for an area or lower—which results in lower income limits. The current HUD income limits are so low that, in many cases, entering the formal labor market in a part time job at the minimum wage would result in losing eligibility for housing assistance. Thus, the existing income limits directly disincentivize formal employment and hinder economic mobility in Puerto Rico

61 OECD, PISA 2015 Results (Volume I): Excellence and Equity in Education, 2016

62 International Monetary Fund, "Role of Individual Characteristics and Policies in Driving Labor Informality in Vietnam," 2020

To achieve the associated increases to GNP, the Government must implement the following human capital and welfare reforms.

Expand the Earned Income Tax Credit (EITC) and broadly publicize it by:

- Puerto Rico Legislature: Collaborating with Hacienda to design an extended EITC program that complies with what is outlined in the American Rescue Plan (ARP) Act and adjusting regulations accordingly
- Hacienda: Complying with all execution requirements outlined in the ARP Act, including sending timely annual reports to the U.S. Department of the Treasury
- Hacienda: Promoting the EITC in collaboration with the Administration of the Socio-Economic Development of the Family (ADSEF, by its Spanish acronym)
- ADSEF: Designing a multifaceted EITC outreach strategy (including working with community organizations throughout the Island)

Implement a Nutritional Assistance Program (NAP) work/volunteer requirement in the next two years by:

- ADSEF: Creating a work/volunteer requirement compliant with the 2022 Fiscal Plan parameters
- ADSEF: Completing all administrative requirements (e.g., obtaining Federal Government approval) necessary to implement a work/volunteer requirement
- ADSEF: Verifying the eligibility of all adult NAP recipients (including adults without dependent children) for the new work/volunteer requirement

Support high-quality workforce development programs by:

- Department of Economic Development and Commerce (DDEC, by its Spanish acronym): Creating partnerships with private and social sector organizations to strengthen worker training
- DDEC: Conducting regular analyses to understand private sector labor market needs
- DDEC: Integrate the results of the analyses into a holistic strategic plan that states how different workforce development efforts blend in a cohesive way across programs and the 15 local boards
- DDEC & Vivienda: Allocating resources in a data-driven manner
- DDEC: Removing structural barriers to employment (e.g., difficulty in securing transportation and childcare to go to work)

7.2 Expand and broadly publicize the Earned Income Tax Credit (EITC) by leveraging ARP Act federal funding

The ARP Act included permanent additional funds to incentivize Puerto Rico to expand the local EITC program put in place for tax year 2019. The ARP Act provides for up to $600 million to be delivered to Puerto Rico in the form of a reimbursable grant, equivalent to three times the local spending, and indexed for U.S. inflation after the first year. The Government was required to amend the current EITC program to qualify for the additional federal funding provided in the ARP Act.

The ARP Act establishes that, in order to qualify for this additional funding, Puerto Rico must:

- Increase the percentage of earned income which is allowed as a credit for each group of recipients, in a manner designed to substantially increase labor force participation
- Spend an amount of local funds greater than a statutorily-specified base amount of $200 million each year, adjusted for U.S. inflation
- Provide an annual report to the U.S. Department of the Treasury that includes an estimate of the EITC cost for that year and a statement of the actual costs in the preceding year

To fulfill these requirements, the 2021 Fiscal Plan included incremental funding needed to maximize the value of the federal grant. On August 29, 2021, the Governor signed legislation expanding EITC in Puerto Rico. The legislation includes a 2-step disbursement process to ensure all available federal funding is disbursed each fiscal year. The impact of this legislation is included in the 2022 Fiscal Plan.

On top of the funding for the tax credit expansion, the ARP Act includes an additional payment of $1.0 million per year to pay for EITC outreach and education through 2025. Previous Fiscal Plans established that to effectively enhance labor force participation and reduce poverty through increased EITC benefits, the Government must more comprehensively promote the program for tax year 2020 and beyond.

U.S. policymakers have implemented and promoted the EITC across mainland states and have seen meaningful gains in formal labor force participation as a result, especially among low-to moderate-income workers.[63] The credit is an effective anti-poverty tool, empowering beneficiaries to defray the cost of education, training, and childcare and support their own self-sufficiency.[64] Since its creation in 1996, the EITC has lifted 6.5 million people out of poverty (half of them children)—more than any other U.S.-based anti-poverty initiative. However, the value of the EITC is greatest when the targeted population is sufficiently knowledgeable of its value to a degree that influences daily decision-making around whether they will enter or stay in the formal economy and whether they will seek employment in Puerto Rico or elsewhere.

7.2.1 EITC design parameters

The Fiscal Plans required the Government to introduce an EITC, which adhered to the following parameters in tax year 2019:

- Individual benefit is dependent on a filer's marital status, number of dependents, and earned income verifiable through an employer-issued tax withholding statement
- Potential benefit increases as earned income rises to a cap, then plateaus, and then decreases at a phase-out income level until it reaches $0
- EITC is coupled with a robust promotional campaign to raise awareness of the benefit among potential claimants and encourage formal labor force participation

In addition to the 2022 Fiscal Plan and ARP Act parameters listed above, when amending the Puerto Rico's EITC legislation, the "EITC must increase the percentage of earned income which is allowed as a credit for each group of individuals with respect to which such percentage is separately stated or determined in a manner designed to substantially increase workforce participation."[65]

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63 National Bureau of Economic Research, "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply," 2006

64 To reward formal sector work, the credit reduces claimants' tax obligations and often generates a cash refund. For example, a $1,000 increase in EITC benefit has been tied to a 7.3% increase in employment; see Hoynes and Patel, "How Does EITC Affect Poor Families," 2015

65 American Rescue Plan Act of 2021

7.2.2 Current state and path forward

Although the Government has implemented an EITC for tax years 2019 and 2020 which is consistent with the design parameters laid out above and has passed legislation expanding the EITC program to qualify for additional funding provided by the ARP Act, the Government has not coupled the credit with a robust promotional campaign as required by the 2020 Fiscal Plan. Hacienda's EITC outreach efforts have centered primarily around sending circular letters detailing the benefit to tax preparers and establishing a handful of outreach centers across the Island to discuss EITC with potential filers in-person. The operation of centers was cut short with the COVID-19 pandemic lockdown. By relying extensively on an in-person outreach campaign after the tax year was over and failing to establish a more robust promotional strategy (e.g., via digital channels, targeted marketing), the uptake of the program and its intended benefits have been limited.

The efforts from FY2022 and beyond must be to take the necessary actions to incorporate the additional federal funding included in the ARP Act and to design and execute an effective and extensive educational and promotional strategy. The outreach strategy should be evidence-based and focused on encouraging non-filers to file. Recent research from Virginia showed that sending mailers and automated calls to those that are eligible was a cost-effective way to increase EITC participation. Additionally, researchers suggest that advertising free tax services, such as the mainland's volunteer income tax assistance (VITA) program, can encourage those that do not file taxes to file.

Hacienda should also consider partnering with private sector tax-preparers to help with the outreach for both the EITC and the CTC.

The Government must accomplish the following actions by their respective deadlines, which will maximize the uptake and benefits of EITC:

EXHIBIT 37: REQUIRED IMPLEMENTATION ACTIONS FOR EITC

	Action item	Owner	Deadline
To be completed in FY2022	▪ Monitor EITC filing data to prevent and detect fraud	▪ Hacienda	▪ Ongoing
	▪ Assume responsibility for managing EITC outreach in tax year 2021 and beyond	▪ ADSEF	▪ July 16, 2021
	▪ Design an EITC outreach strategy for tax year 2021 and share with Oversight Board	▪ ADSEF	▪ September 15, 2021
	▪ As established by the ARP Act, increase the percentage of earned income which is allowed as a credit for each group of recipients, in a manner designed to substantially increase labor force participation	▪ Hacienda	▪ Completed
	▪ Launch new EITC promotional campaign	▪ ADSEF	▪ Annually from January 1, 2022
	▪ Monitor EITC uptake data in real-time to inform promotional campaign	▪ Hacienda, ADSEF	▪ Ongoing each tax year
	▪ Prepare EITC performance report and share with Oversight Board	▪ Hacienda, ADSEF	▪ Annually from June 1, 2022
	▪ Discuss EITC performance with Oversight Board	▪ Hacienda, ADSEF	▪ Annually from June 15, 2022
To be completed in FY2023	▪ Provide an annual report to the U.S. Department of the Treasury that includes an estimate of the EITC cost for that year and a statement of the actual cost in the preceding year	▪ Hacienda	▪ September 15, 2022
	▪ Design a recurring assessment of performance to fulfill federal guidelines and reform the EITC platform so can be aligned with federal requirements	▪ Hacienda	▪ September 15, 2022
	▪ Prepare EITC performance report and share with Oversight Board	▪ Hacienda	▪ September 15, 2022
	▪ Meet with Oversight Board to discuss EITC performance report and tax year 2022 promotional strategy	▪ Hacienda, ADSEF	▪ September 15, 2022

A key element of the mechanism through which the EITC impacts growth is its ability to bring informal labor into the formal labor sector and, thus, increase labor force participation. For this to happen, the EITC should be supported by a labor regulatory environment that is supportive of hiring labor in the formal sector.

The Labor Transformation and Flexibility Act, or Act 4-2017, did not go nearly as far as needed to eliminate the most egregious elements of Act 80 of 1976, also known as the Unjust Dismissal Act. However, Act 4-2017 did, to some extent, ease some restrictions on labor hiring. While some stakeholders have called for the repeal of Act 4-2017, its elimination would likely reestablish onerous provisions related to probationary periods, overtime, and bonuses, which would all make the hiring environment more costly in the formal sector. Its repeal would discourage new hiring and reduce the labor market flexibility, thus limiting the effectiveness of the EITC expansion in promoting labor force participation, economic growth, and the revenues associated with that growth. Therefore, the Government must refrain from repealing Act 4-2017 or enacting new legislation that negatively impacts labor market flexibility.

According to the 2020 World Bank's Doing Business study focused on the impact of labor flexibility on labor formality, there is approximately a linear relation whereby informality is inversely related to the degree of employment flexibility. Clearly then, the elimination of Act 4-2017 or other actions taken that are detrimental to a labor regulatory environment supportive of hiring labor in the formal sector would put at risk the incremental GNP growth and revenues related to the implementation of the EITC.

7.3 Introduce a Nutritional Assistance Program (NAP) work/volunteer requirement

To further support labor force participation, the 2022 Fiscal Plan requires the Government to introduce a work/volunteer requirement for select adult NAP beneficiaries, with full implementation by the beginning of FY2024. NAP is Puerto Rico's largest Government assistance program and provides nutritional assistance. Unlike mainland Supplemental Nutritional Assistance Program (SNAP) benefits, NAP does not include a work/volunteer requirement. The Federal Government requires that all able-bodied adult beneficiaries without dependent children work, volunteer, or be enrolled in worker training classes for at least 20 hours per week to receive SNAP benefits.[66] When well-designed, including such requirements in similar programs has led to increases in labor force participation.[67] The implementation of a NAP work/volunteer requirement would contribute to increasing labor market participation and to achieve the potential growth anticipated from human capital and welfare reforms.

7.3.1 Specific initiatives and design parameters

The 2022 Fiscal Plan requires the Government to implement a NAP work/volunteer requirement using the following parameters. Specifically, by FY2024 the Government must:

- Apply the requirement year-round to all able-bodied NAP beneficiaries aged 18-59 without dependent children in their household[68]

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[66] NAP also differs from SNAP in that the former is funded as a block grant and is administered separately from the latter; see Center on Budget and Policy Priorities, "How Does Household Food Assistance in Puerto Rico Compare to the Rest of the United States?" 2020

[67] For example, when the Federal Government first introduced a work/volunteer requirement for recipients of Temporary Assistance for Needy Families (TANF) benefits in the 1990s, the labor force participation rates of single mothers rose while poverty rates among single mothers and children both fell substantially. See Gitis, "A Menu of Options to Grow the Labor Force," 2017, and Gitis and Arndt, "The 20th Anniversary of Welfare Reform," 2016

[68] As such, all NAP recipients who are under the age of 18, older than the age of 59, have children dependents in their household, or are medically certified as physically or mentally unfit for employment should be excluded from the work/volunteer requirement

- Grant all eligible recipients up to a three-month transition period to secure employment, begin volunteering, or enroll in qualified education or training programs ("qualifying activities")
- Mandate that all eligible recipients complete 80 hours of qualifying activities per month
- Ensure NAP eligibility guidelines and benefit calculations effectively promote the labor force participation increase by avoiding drastic phase-out structures that could factually penalize eligible recipients for seeking formal sector work
- Redistribute savings realized through the work/volunteer requirement to boost working eligible recipients' take-home pay through an expansion of the Earned Income Disregard (EID)[69]

7.3.2 Current state and path forward

The 2020 Fiscal Plan provided design parameters and specific milestones for the implementation of a NAP work/volunteer requirement. Unfortunately, as of April 2021, the Government has made no meaningful progress in the implementation of this work/volunteer requirement. The Government has yet to meet any major milestones in the implementation of this reform, including designing the requirement itself.

The Government has recently committed to a 2-year implementation timeline. Reaching full and timely implementation requires urgent and nimble action from the Government.

In August 2021, the Food and Nutrition Service at the U.S. Department of Agriculture announced an update to the Thrifty Food Plan, which is an important part of determining benefit amounts for NAP and other federal nutrition assistance programs. Due to this change, Puerto Rico is projected to receive an additional $464 million in annual funding for the program in FY2022, which is expected to increase with inflation in future years.[70] These additional funds could help further incentivize labor force participation if a work/volunteer requirement is successfully implemented.

The Government must accomplish the following action items by their respective deadlines:

[69] The EID allows Government assistance beneficiaries to exclude a portion of income earned through formal sector work from welfare benefit calculations. An increase in the EID can boost an aid recipient's take-home pay by allowing them to claim Government benefits that they otherwise would not be eligible for due to an increase in earned income

[70] USDA FNS, "USDA Thrifty Food Plan Increase Means More Nutrition Assistance Funding for Puerto Rico," 2021. (Accessed August 16, 2021)

EXHIBIT 38: REQUIRED IMPLEMENTATION ACTIONS FOR NAP WORK REQUIREMENT

Required implementation action	Owner	Deadline
Design a NAP work/volunteer requirement proposal compliant with parameters above and share with the Oversight Board	ADSEF	Completed
Meet with the Oversight Board to discuss proposal	ADSEF	Completed
Submit work/volunteer proposal to FNS[2]	ADSEF	Completed
Assess operational requirements needed to implement the work/volunteer requirement as proposed	ADSEF	April 1, 2022
Discuss operational requirements with the Oversight Board	ADSEF	April 30, 2022
Receive work/volunteer requirement approval from FNS	ADSEF	Completed
Publish FNS-approved State Plan aligned with Certified Fiscal Plan parameters	ADSEF	Completed
Hire a qualified third-party analytical firm acceptable to the Oversight Board to oversee implementation	ADSEF	July 1, 2022
Complete review of all NAP recipients to verify work/volunteer requirement eligibility	ADSEF	June 30, 2022
Implement full-year work/volunteer requirement	ADSEF	July 1, 2023
End three-month transition period for eligible recipients	ADSEF	September 30, 2023
Validate work/volunteer requirement implementation with the Oversight Board	Third-party firm	November 15, 2023
Publish annual report on NAP program and work/volunteer requirement performance	ADSEF	Annually from August 15, 2024

7.4 Create high-quality workforce development programs

To facilitate increased labor force participation, the 2022 Fiscal Plan requires that the Government take steps to more effectively train residents on the knowledge and skills needed to contribute to the economy. Currently, the Island's worker training programs are managed by local workforce development boards and have a local scale that results in a limited scope to support the development needs of Puerto Rican workers at all stages of their working life cycles. Moreover, the Government has not conducted the analyses or outreach necessary to target the Island's most-pressing talent gaps with a forward-looking view aligned with major labor force trends, like digitization and automation. Inadequate preparation and training have left many local residents without a real opportunity to succeed in the formal labor force and that situation will quickly scale in the years to come. The COVID-19 pandemic has exacerbated these issues, meaning that empowering workers to enter or re-enter the workforce will be especially important in the following months and years.

7.4.1 Specific initiatives and design parameters

To strengthen workforce development programs and promote participation in the formal economy, the 2022 Fiscal Plan requires that the Government complete several initiatives by the end of FY2022:

- Centralize the administration of Workforce Innovation Opportunity Act (WIOA) funds—the primary vehicle for federal investments in workforce development—under the DDEC
- Promote the signing of Memoranda of Understandings (MOUs) between local worker training boards and Government agencies to strengthen training and defray costs
- Conduct the rigorous data analyses outlined throughout this chapter to leverage workforce development funds in a data-driven manner to reduce labor market talent gaps

- Integrate the results of such analysis in a holistic strategic plan that clearly states how different workforce development efforts and funding blend in a cohesive way to improve human capital development for local residents
- Improve the existing resources allocation and spending tracking process, by making it more standard, transparent, and data-driven
- Coordinate an interagency initiative to deeply analyze structural barriers to unemployment and support labor force stakeholders in their efforts to overcome them

7.4.2 Current state and path forward

Unfortunately, the Government's progress in overhauling the Island's worker training systems has been limited to the centralized oversight of WIOA funds under DDEC and some improvements in systems to track program data. Local boards, which administer WIOA-funded programming in their respective regions, continue to offer workforce programs of disparate and inconsistent quality, and many have delayed signing MOUs with Government agencies. Moreover, while DDEC updated its WIOA State Plan in January 2021 and successfully incorporated labor market analysis, further analyses are still required to better understand barriers to employment and identify and propose solutions to existing talent gaps. As such, current initiatives may not be well-attuned to the current and future needs of the Island's employers and its economy and need to be adjusted.

To develop high-quality worker training programs that empower all residents to reach their fullest potential and enter the labor force, the Government must first implement strategic and administrative enablers throughout FY2021 and FY2022. As such, DDEC must:[71]

- **Conduct analyses to understand labor market needs** by analyzing the Island's labor market to identify talent gaps and making the required diligence on the global future of work trends[72]
- **Share the results of such analysis with local workforce development boards,** so they could better inform their local strategies and programs
- **Design and implement a workforce development coordination strategy** that works as the steppingstone to further collaboration among local workforce development boards and helps materialize scale benefits and knowledge sharing
- **Leverage** existing metrics to evaluate all uses of workforce development funds and its impact and provide actionable feedback to the 15 local workforce development boards
- **Coordinate an interagency effort to deeply analyze the barriers to employment** and identify potential initiatives to overcome them

In turn, these enablers will empower and potentiate the in-field implementation of human capital development programs and tools.

The 2020 Fiscal Plan included a set of initiatives that aimed to support the training, learning, and human capital accumulation needs of local residents at all stages in their working life cycles ("life cycle initiatives") in FY2022 and beyond. However, the implementation of such initiatives would have required the usage of CDBG-DR funding, as well as the repurposing of recurring WIOA funds. Both are federal funds allocated to Puerto Rico under a specific granting process. The

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71 U.S Department of Labor Employment and Training Administration, "Best Practices, Partnership Models, and Resources Available for Serving English Language Learners, Immigrants, Refugees, and New Americans," 2017; Center for Law and Social Policy, "WIOA: What Human Service Agencies and Advocates Need to Know," 2015

72 In McAllen, TX, the Broader Workforce Alliance uses a data-driven approach to align workforce development programs to local employer needs. The program has served more than 7,700 individuals, placed 90% of candidates into job opportunities, and has led to a 230% increase in wages among participants. See Project QUEST's web homepage for more information

recipient Government agencies have exercised their rights to define the priorities to be pursued with those funds and, as their plans have been approved by the Federal Government, are currently in the process of implementing them. While pursuing the same overarching goals, such plans are different in structure and focus to the initiatives outlined in the 2020 Fiscal Plan. Nonetheless, the Oversight Board believes that the aforementioned life-cycle initiatives would significantly benefit Puerto Rico's labor force development if implemented, so it strongly recommends that the Government considers its importance and potential implementation in the near future. Life-cycle initiatives include:

- **Work with PRDE to reform education to enable everyone to graduate high school** (see *Chapter 8* and *Section 14.3*).
- **Prepare high schoolers for success in college and the workforce** by designing a dual enrollment Pilot program that enables high school students to take college-level classes and earn an associate degree alongside their high school diploma and creating a strategy to expand and leverage vocational education to address talent gaps. [73,74]
- **Empower college students to obtain job skills and research opportunities** by designing employer guidelines and an outreach strategy to expand the number of high-quality co-ops and internships available to college students, and expanding opportunities for college students to conduct Science, Technology, Engineering, and Mathematics (STEM) research.[75, 76]
- **Create training programs tailored to employer needs** by designing a strategy to create high-quality apprenticeships to address identified current and future talent gaps and developing a customizable workforce development Pilot program that leverages partnerships

73 The University of Puerto Rico-Mayaguez (UPR-Mayaguez)'s R2DEEP program, the leading dual enrollment initiative in Puerto Rico, has served high-achieving students with an interest in engineering for several years, but space is limited to just several dozen students and tuition can exceed $240 per credit. Several small universities, such as Columbia Central University, also enable students to complete college courses during the school year or summer breaks. In the aftermath of the 2019-20 earthquakes, PRDE also partnered with a handful of universities to offer online college courses to high schoolers from the most-affected areas. Although this initiative approximates a fully-fleshed dual enrollment initiative, the program was established as a temporary solution to education disruptions, focuses on students from affected areas, and does not offer high-achieving students associate degrees. See University of Puerto Rico-Mayaguez, "R2DEEP Requirements and Costs"; El Vocero, "Oportunidad para adelantar estudios universitarios," 2018; and Alicea, "Educacion lanza cursos en linea en conjunto con siete universidades," published 2020

74 A study in California, for example, concluded that students who participated in dual enrollment classes were more likely than their peers to graduate from high school, enroll in four-year colleges, and succeed in college. California's efforts to expand access to dual enrollment programs (e.g. offering free textbooks) have widened participation (one in eight California high schoolers are dual enrolled) and boosted student achievement (90% of participants earned college credit). Once in college, the study concluded that previously dual enrolled students accumulated more college credits and were less likely to take remedial classes than their peers; see Hughes, et. al., "Broadening the Benefits of Dual Enrollment," 2012, and EdSource, "High school students benefit from taking college courses, but access uneven in California," published 2020

75 D'Abate, "Developmental interactions for business students: Do they make a difference?", 2010

76 UPR's Cooperative Engineering Education Program (referred to as "COOP") has promoted co-ops for more than 40 years, but access to COOP is limited to UPR students and primarily geared toward engineering students (with some exceptions). Similarly, readily -available internships (as determined through a web search for "internships in Puerto Rico" in April 2020) are primarily offered by large multinational firms (e.g., biopharmaceutical companies and financial services firms) are relatively few in number, limiting opportunities to a small cohort of successful applicants. See University of Puerto Rico, "Celebran 40 aniversario del Programa Coop de Ingeniería," 2017, and University of Puerto Rico-Rio Piedras, "Experiencia de Educacion Cooperativa (COOP)"

with local technical colleges to provide qualified employers no-cost tailored training programs. [77,78]

- **Subsidize training programs to support lifelong learning** by designing lifelong learning Pilot program to subsidize adult residents' access to high-quality technical education courses that can address pressing talent gaps through technical reskilling or specialization.[79]

DDEC is best positioned to oversee the development and implementation of these life cycle initiatives. Exercising its role as coordinator, DDEC can perform the analyses, consolidate local knowledge and expertise provided by WIOA boards, and establish the partnerships needed to produce high-quality workforce development programming.[80] Vivienda is also managing a $90 million Workforce Training Program with CDBG-DR funds. [81]. DDEC should ensure its initiatives are aligned with the proposed usage of the CDBG-DR funds to avoid duplication of efforts or redundancy.

Revamping workforce development is necessary to ensure the full economic benefits of the Human Capital and Welfare Reform. For example, the EITC and the NAP work requirements would be significantly hampered if workers are unable to be matched with job openings in the formal economy due to lack of training, skills, or other barriers to employment. In other words, lack of progress in improving workforce development would put at risk the incremental GNP growth and revenues attributed to the Human Capital and Welfare Reform by negatively impacting the effectiveness of the EITC and the NAP work requirement in promoting growth.

7.4.3 Analyses to understand labor market needs

To create impactful workforce development programs, the Government must first conduct an analysis of the Island's labor market to identify talent gaps.

The 2022 Fiscal Plan requires the Government to conduct such an analysis, including by creating an inter-agency working group. While DDEC is best positioned to be in charge of the implementation of this initiative, results and impact will benefit from the knowledge and expertise of all Puerto Rican labor-related stakeholders. Thus, DDEC must establish and coordinate a working group dedicated to this interagency effort. Given their respective roles and experience, DOF, ADSEF, DOLHR, PRDE and PRDOH must be incorporated within such a group.

In the first stage, the working group must identify the current and potential talent needs of employers that will shape their demand for workers. In this stage, DDEC must determine current

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77 A study of apprenticeships in 10 mainland states found that apprentices earned $240,000 more in total lifetime earnings on average than those who did not complete apprenticeships; see Reed, et. al., "An Effective Assessment and Cost-Benefit analysis of Registered Apprenticeship in 10 States," 2012. For additional findings on the positive benefits of apprentices for employers, see Lerman, et.al., "The Benefits and Challenges of Registered Apprenticeship: The Sponsors' Perspective," 2009; Lerman, "Apprenticeship in the United states: Patterns of Governance and Recent Developments," in Schlogl, ed. Situated Competence Development Through Innovative Apprenticeships, 2008. Regarding returns on investment, a study of more than 1,000 Canadian employers found that companies derived $1.47 in benefits for every dollar invested in apprenticeship training; see Canadian Apprenticeship Forum, "It pays to hire an apprentice: Calculating the return on training and investment for skilled trades employers in Canada," published 2009

78 In 2018, DDEC and DOLHR launched an initiative to develop construction, tourism, aerospace, agriculture, and advanced manufacturing apprenticeships. Since then, the effort has only successfully engaged a handful of employers (primarily aerospace firms) to create programs. Despite their importance, the initiative has not created any construction- or tourism-focused apprenticeships; see Action Plan Amendment Three as certified by the Oversight Board, 2020, and El Vocero, "Arranca Programa de Formacion para el Empleo del DDEC," published 2018

79 Reskilling and specialization can be achieved through enrollment in structured career transition programs managed by local colleges and universities or through pre-approved technical education courses (including online courses); for more information, see SkillsFuture, "What is it?"

80 WIOA funds are intended to support initiatives to train youth, adult, and dislocated workers as well as apprenticeships. Given their knowledge of local and regional needs, DDEC should also leverage the expertise of local WIOA boards, which are responsible for the administration of WIOA funds and workforce programming in their respective regions, and non-governmental workforce development organizations where appropriate

81 Per the Action Plan, the Workforce Training Program has the objective of promoting workforce development in the construction, hospitality and tourism, healthcare, technology, and manufacturing industries

and future talent demands of employers on the Island; current skill and knowledge gaps among existing workers (informed by employers); and the availability, cost, and quality of the Island's talent supply. It should also draw on relevant benchmarks and best practices, as well as major global labor market trends to inform future talent needs.

Some aspects of this first stage are already present in the 2020 WIOA State Plan. However, DDEC must ensure the full analysis is complete and available for all relevant stakeholders in order to appropriately inform workforce development efforts.

In the second stage, the working group must discern the available resources and trends that will shape the supply of talent to meet employers' needs. As such, DDEC must identify the resources currently available to train workers to meet employer needs, new resources that workers will leverage to develop relevant skillsets, the amount of training currently offered through employers, and potential private and social sector partners that can help in training or re-skilling workers.

Enhancing opportunities for local residents depends on the working group's ability to transform its learnings and conclusions into effective workforce development tools. So in a third and final stage, the working group must issue actionable recommendations at the local and Island-wide levels, in the form of an integrated strategic plan that would outline the tactical roadmap to build a more robust offer of training programs, initiatives, and efforts.

Additionally, the creation and publication of such plan will allow the working group to have a holistic view of the current situation and more effectively plan for the usage of all workforce development funding currently available in the Island, namely the recurring WIOA funding, the resources received from CDBG-DR, and the local funds included in the document (see *Section 15.2*).

To make certain this is accomplished, the Government must complete the following action items by their respective deadlines:

EXHIBIT 39: REQUIRED IMPLEMENTATION ACTIONS FOR HIGH-QUALITY WORKFORCE DEVELOPMENT COORDINATION STRATEGY

	Action item	Owner	Deadline
To be completed in FY2021	▪ Share with Oversight Board report on progress of CDBG-DR Workforce Training Program	▪ Vivienda	▪ Quarterly starting on May 30, 2021
To be completed in FY2022	▪ Publish a strategic plan that states how different workforce development efforts and funding (i.e., WIOA, CDBG-DR, 21st Century Technical and Business Education fund) blend in a cohesive way to improve human capital development	▪ DDEC, DOLHR, Vivienda	▪ Delayed – December 31, 2021
	▪ Share strategic plan and coordination strategy with 15 local boards	▪ DDEC	▪ March 30, 2022
	▪ Re-conduct labor market analyses and update strategic plan	▪ PRDOL, DDEC	▪ Quadrennially from December 31, 2023

7.4.4 Allocate resources in a data-driven manner

To maximize the number of workers that can benefit from redesigned workforce development programs, the Government must analyze data to confirm that workforce funds are used transparently, efficiently, and effectively. Routine and comprehensive internal data analysis will enable DDEC to provide appropriate feedback and pertinent recommendations on the uses of workforce development funding when necessary, to boost impact and improve future outcomes. Potential metrics to analyze include:

- Employment and worker self-sufficiency (e.g., employed participant retention rates, average duration of first employment upon program completion, wages over time)
- Program quality (e.g., participant attendance rates, employer satisfaction rates with participants' training, percentage of corporate partners who hire participants)
- Workforce attraction (e.g., percentage of unemployed workers who inquire about a program, percentage of inquiring workers who participate in a program)

Some progress has been made on this front. As detailed in the 2020 WIOA State Plan, a new Participant Record Information System (PRIS) will now include common registration and case management across WIOA programs. Puerto Rico also signed the State Wage Interchange System (SWIS) Agreement with the Department of Labor Employment and Training Administration, which incorporates all six WIOA core programs to exchange interstate quarterly wage records. Since January 1, 2020, all Queries for Wage Data for all applicable programs are processed through the SWIS Clearinghouse. Going forward, DDEC must ensure these and additional metrics are continuously analyzed and leveraged to guide workforce development strategies. DDEC must also ensure systems provide KPIs and benchmark targets and enable a centralized source of information for case management and program evaluation.

To support the efficient and transparent use of WIOA funds, DDEC must promote a common approach to spending evaluation and reporting. As such, DDEC must:

- Standardize and make transparent all monitoring processes, metrics, and targets, as well as compliance and promotional efforts results, to create more effective programs
- Ensure that regional boards sign MOUs with Government agencies to strengthen training programs while defraying programming costs, facilitating the redeployment of workforce development funds to support other high-performing initiatives
- Leverage data on performance against the aforementioned metrics to set regional boards' annual budgets based on prior-year performance to promote efficient and effective uses of workforce development funds at the local level

The Oversight Board considers that local residents would benefit from a structure of local workforce development boards grouped into larger regional entities, which would enable enhanced results driven by well-performing boards taking over underperforming peers, as well as additional benefits from economies of scale. The Oversight Board strongly recommends that DDEC and WIOA consider the system's reorganization into a less fragmented structure.

To ensure that workforce development funds are used in a data-driven manner, the Government must accomplish the following actions by their respective deadlines:

EXHIBIT 40: REQUIRED IMPLEMENTATION ACTIONS FOR DATA-DRIVEN RESOURCE ALLOCATIONS

	Action item	Owner	Deadline
To be completed in FY2023	▪ Standardize and make transparent all monitoring processes, metrics, and targets, as well as compliance and promotion efforts results, to create more effective programs	▪ DDEC	▪ July 30, 2022
	▪ Begin tracking performance of all workforce development initiatives relative to KPIs and provide actionable feedback to the 15 local workforce development boards in reports available online to the general public	▪ DDEC	▪ Biannually from December 1, 2022

7.4.5 Understand structural barriers to employment and support efforts to eliminate them

Another important objective the Government must pursue is to ensure that new entrants into the formal economy can retain employment. Transportation, childcare, and mental health-related issues, for example, can temporarily inhibit an otherwise willing worker from pursuing employment in the formal economy. Mainland jurisdictions have used several solutions, including job counseling, paid transitional employment, and two-generation strategies that educate parents alongside their children, to tackle many of these same barriers.[82] With 57.1% of Puerto Rican children living in poverty and years of traumatic natural disasters and health crises, the Government's efforts should initially prioritize reducing employment barriers for working parents, low-income families, and persons affected by mental illness.[83]

DDEC is well positioned to help local workforce development boards and other relevant stakeholders better understand these barriers, their causes, and the size of their effects, by performing pertinent research and coordinating working groups to further study this topic.

Having a comprehensive view of these issues would allow labor-related public and social sector entities to better inform their programs' design and could place Puerto Rico in the correct pattern to tackle structural barriers to employment and labor force participation.

To support the system's understanding of structural barriers to employment, the Government must accomplish the following actions by their respective deadlines:

EXHIBIT 41: REQUIRED IMPLEMENTATION ACTIONS FOR EMPLOYMENT BARRIER REDUCTION

	Action item	Owner	Deadline
To be completed in FY2021	▪ Create a working group comprised of DOF, ADSEF, DOLHR, PRDE, Vivienda, and DDEC tasked with identifying the most significant barriers to employment on the island, such as access to transportation or childcare	▪ DDEC	▪ Delayed – June 30, 2021
To be completed in FY2022	▪ Publish a report with actionable items and recommendations to reduce barriers to employment	▪ Working group	▪ Delayed – November 15, 2021

7.4.6 Further initiatives on human capital development to be pursued in the mid-term

Given the challenges involved in restoring long-term growth and development for Puerto Rico, the previous initiatives should be understood as a starting point. Much more needs to be done.

- In collaboration with Estudios Técnicos, Inc., the Oversight Board published a report Human Capital Development in Puerto Rico: An Overview (2020) which includes additional initiatives that the Government may adopt, including the creation of a Human Capital Committee to create a Human Capital Policy for Puerto Rico. The Committee should bring together all relevant stakeholders from the various sectors that are contributors to strengthening Puerto Rico's human capital.

82 For example, a New York's Center for Employment Opportunities offers formerly-incarcerated persons job training, paid transitional employment, and career counseling; post-enrollment, participants are 48% more likely than non-participants to gain full-time employment and 19% less like to be re-convicted or -arrested for a felony; see Center for Employment Opportunities, "Research Results," and Bloom, et. al., "Four Strategies to Overcome Barriers to Employment: An Introduction to the Enhanced services for the Hard-to-Employ Demonstration and Evaluation Project," published 2007

83 Rosa-Rodriguez, "State of mental health services for children in Puerto Rico: Mental heal services for Puerto Rico's children are not a luxury but a necessity," 2019

- Recent research assigns a central role in human capital improvement to additional factors such as health and skills accumulated outside of the schooling system. The population of Puerto Rico must have access to healthcare services in order to boost productivity in the long term. For example, Puerto Rico faces high rates of chronic health conditions. Human capital initiatives going forward should incorporate these factors. An effective system of statistics and information is needed to support human capital improvement initiatives.
- Puerto Rico's statistical system needs to be refurbished in order to provide information that is useful for research and policy making. As part of this effort, the 2022 Fiscal Plan recommends reincorporating Puerto Rico in the PISA tests and other international metrics, which would help to know where the Island stands in relation to other countries or states' proficiency in basic educational abilities and track its progress towards meeting goals.

With the objective of boosting formal labor participation, DDEC and the Department of Labor and Human Resources should explore creating a program of incubators for the formalization of existing informal businesses, as has been suggested by a study published by the National Bureau of Economic Research on the case of Puerto Rico. This study also suggested that work activities common to the informal labor market such as construction and reparation work could be organized through cooperatives of community workers or through community organizations.[84]

Puerto Rico's competitive advantage when competing with similar localities will depend, possibly moreso than anything else, on the quality of its human capital. The necessary reforms to improve knowledge and skills, and to reduce barriers to employment, will spur more investment from within and abroad, and will help workers find meaningful and well-paid jobs that will, in turn, contribute to faster economic growth for the Island.

Chapter 8. K-12 education reform

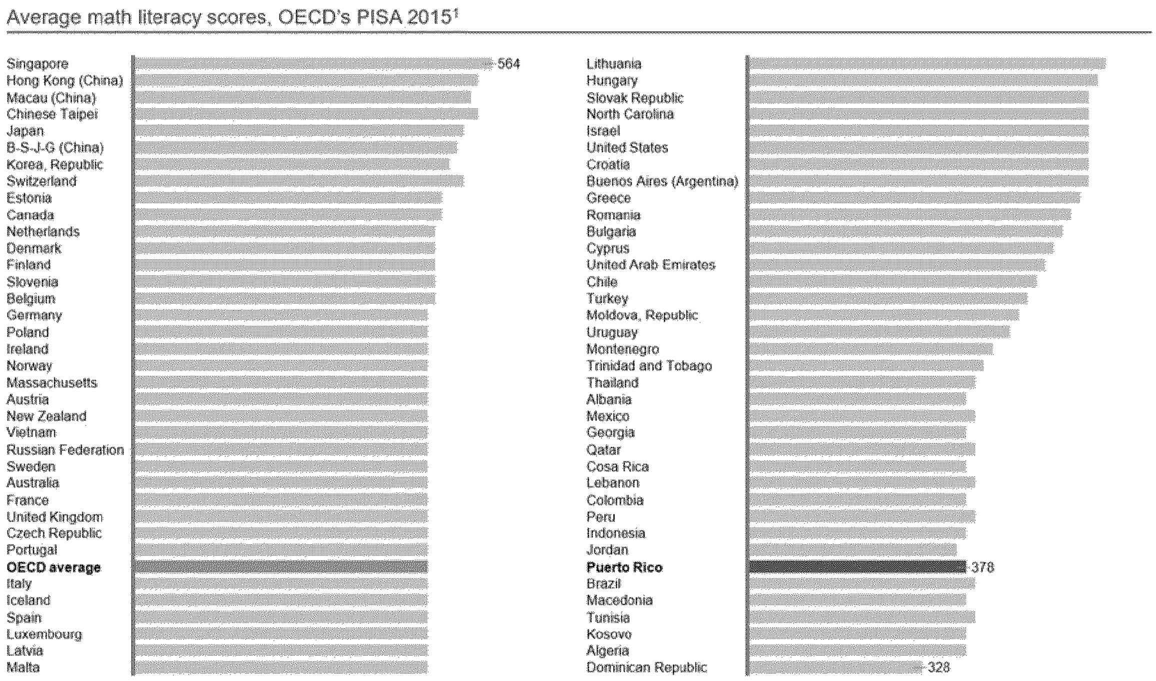
A high-quality education is the cornerstone for creating economic opportunities for the residents of Puerto Rico—especially after years of devastating natural disasters and the unprecedented impacts of the COVID-19 crisis. The entire system of education has been disrupted, and the Department of Education (PRDE) – along with many education systems across the U.S. – was not prepared to adapt quickly enough. These challenges were exacerbated in Puerto Rico given the destabilizing impact of recent natural disasters as well as high leadership turnover resulting from the election year. Despite these obstacles, PRDE has attempted to implement the 2020 Fiscal Plan initiatives, but many of these initiatives saw limited progress in part due to the COVID-19 pandemic.

Comprehensive K-12 education reforms will help address the academic and social-emotional impacts of the last year while simultaneously empowering every Puerto Rican to develop the skillsets needed to achieve economic self-sufficiency and join the formal workforce. Together with *Section 14.3* of the 2022 Fiscal Plan, which outlines the necessary management improvements and operational efficiencies that the Department of Education (PRDE) must pursue, this chapter provides a transformation roadmap that will transform K-12 student outcomes on the Island. Indeed, studies show that mainland workers that attain fluency in both English and Spanish earn $2,800 more per year than their monolingual peers, while Puerto Rican workers (ages 65 or below) with a high school diploma earn three times as much as residents who lack one.[85] Improvements in education will bring prosperity and growth to individuals and the Island as a whole.

84 Enchautegui, M., & Freeman, R. B., National Bureau of Economic Research, "Why don't more Puerto Rican men work? The rich uncle (Sam) hypothesis (No. w11751)," 2005
85 Ruggles, et. al., IPUMS USA: Version 9.0 [Puerto Rico Community Survey], 2015; $17,348 vs $5,731

Even before the COVID-19 pandemic, PRDE was struggling to provide a high-quality educational experience meeting the developmental needs of all children and preparing them for success in higher education or the workforce. Puerto Rico ranked 67th out of 73 education systems in average scores of 15-year-old students on the Program for International Student Assessment (PISA) mathematics literacy scale in 2015, with an average score of only 378 compared to the overall average of 490 (see *Exhibit 42*).[86] The Island performed slightly better in reading (59th) and science (65th) literacies but was still well below the average in both subjects (83 and 90 points below, respectively). Moreover, school underperformance persists on the Island, with just 45% of students proficient in Spanish, 39% of students proficient in English, and 30% of students proficient in mathematics in 2019. There are particularly sharp drops in English proficiency between the third and fourth grades, and similarly sharp drops in mathematics and Spanish proficiency between the fifth and sixth grades.[87] 33% of current third graders are at-risk of not graduating high school, and PRDE has delayed the introduction of evidence-based practices that are important to properly serving Special Education students (who comprise a greater share of the student population—32%— than in any other U.S. jurisdiction).[88,89]

EXHIBIT 42: AVERAGE MATH LITERACY SCORES, ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)'S PROGRAM FOR INTERNATIONAL STUDENT ASSESSMENT (PISA), 2015



1 OECD Program for International Student Assessment (PISA) test scores, 2015; Puerto Rico did not participate as a separate entity for the latest PISA report (2018). The most recent available PR data is from 2015 when they participated as an unincorporated territory of the US.

The COVID-19 pandemic is likely to worsen student outcomes given research showing a disproportionately negative impact on low-income (~80% of PRDE student population in 2021)

86 OECD, Program for International Student Assessment (PISA) test scores, 2015

87 English: 55.4% in third grade to 39.0% in fourth; Spanish: 62.3% in third to 48.6% in fourth; mathematics: 45.3% in fifth to 11.5% in sixth; see Puerto Rico Department of Education, "Resultados META-PR 2018-2019," 2019

88 This calculation is based on recent PRDE performance data and accounts for the fact that students who do not read at grade level by third grade are four times more likely to not graduate high school; see Puerto Rico Department of Education, "Reporte de Desercion Escolar 2018-19," 2019 and Hernandez, "Double Jeopardy: How Third-Grade Reading Skills and Poverty Influence High School Graduation," 2012

89 An average of 13% of students are characterized as special education students in the U.S.; see Puerto Rico Department of Education, "Matricula Activa," 2020; U.S. Department of Education, National Center for Education Statistics, 2017

and Special Education students.[90,91] Furthermore, surveys of K-12 students in the U.S. found that ~40% of students have been putting less effort into their work compared to before the pandemic, and ~80% of students indicate that feeling depressed, stressed, or anxious makes it hard to do their best in school.[92] Between 2017 and 2020, students in Puerto Rico were estimated to have missed up to ~160 school days.[93] To most effectively serve students and address learning gaps, the Governor of Puerto Rico and PRDE decided to begin reopening schools in line with national recommendations. As of April 2021, the Department had welcomed back students in kindergarten through third grade, and twelfth grade, as well as Special Education students at ~120 schools. To continue to safely re-open schools in fall 2021, PRDE needs clear, robust plans, including contingency plans that would allow for a speedy transition to a remote or hybrid environment as needed.

Although natural disasters and the COVID-19 pandemic have wrought substantial destruction and turmoil, relief funds offer PRDE an unprecedented opportunity to reshape Puerto Rico's public schools for the better. In the 2020 Fiscal Plan, the Oversight Board allocated $124 million in Commonwealth funds to purchase tablets, software, and training services necessary to support distance learning for all PRDE students and teachers as part of the Emergency Measures Support Package in response to the COVID-19 emergency. Additionally, as discussed in *Section 14.3*, PRDE has been allocated a significant amount (~$4.6 billion) of one-time Elementary and Secondary School Emergency Relief (ESSER) funding through the CARES, CRRSA, and ARP Acts, which can be used to support recovery and response efforts related to the COVID-19 pandemic. After having analyzed the guidance released by the U.S. Department of Education on how to calculate the Maintenance of Effort (MOE) requirements associated with this funding, as well as its implications on the UPR and PRDE funding provided for FY2022, the Commonwealth formally requested a full waiver of the MOE requirements on September 1, 2021. Furthermore, PRDE has hundreds of millions of federal carryover funds from prior year grant allocations and received an additional $2.3 billion in FEMA funding that can be used to improve school building infrastructure damaged by Hurricane María.

This fiscal situation brings meaningful opportunity for students in Puerto Rico, but also significant management and logistical complexity. As such, PRDE must create a multi-year financial plan – as outlined in detail in *Section 14.3* – to strategically allocate those funds in high impact, evidence-based, and equitable ways aligned to its strategic goals. Devising an effective financial plan starts with assessing student learning deficits in order to pinpoint the most acute needs and invest in impactful interventions through a learning acceleration plan. As the Department works to align financial resources to its strategic priorities, it also needs the right people with the right qualifications to carry out these priorities. To this end, PRDE must address the capacity constraints exacerbated by the increasing demands of the COVID-19 pandemic and PRDE leadership turnover from the election. Magnifying these challenges, outdated systems, inefficient processes, and poor data management often impede the ability of staff at all levels to carry out their normal daily functions, never mind respond to disruptions strategically or with agility.

The effects of the events of the last year have reverberated across the Island and the whole of the Department of Education – putting PRDE in a constantly reactive position. To afford all local residents an equal opportunity to develop the knowledge and skillsets needed to contribute to the Puerto Rican economy and to address the urgent needs of students resulting from the COVID-19 pandemic, PRDE must continue implementing education structural reforms in FY2022**.** As described in its State Plan, PRDE aimed to achieve 73% student proficiency in mathematics, 77% proficiency in English, and 80% proficiency in Spanish across all grade levels by the 2021-22 school year, but the Department remains far from these goals.

90 Puerto Rico Department of Education, "Matricula Activa," 2021

91 NWEA, "Learning during COVID-19: Initial findings on students' reading and math achievement and growth", 2020

92 The Evidence Project at CRPE, "The kids are (really) not alright: A synthesis of COVID-19 student surveys", 2021

93 Bellwether Education Partners, Puerto Rican students during the COVID-19 pandemic: Data update, 2021

Nonetheless, the future of Puerto Rico relies on PRDE delivering this level of improvement. To achieve these targets—and ensure that PRDE makes a concerted effort to offer the children of Puerto Rico the high-quality education that they deserve—comprehensive reforms must begin immediately, particularly in areas such as English Language Learning (ELL), K-5 literacy, and STEM instruction.

To maximize the likelihood of success, education reforms should build on the improvement areas PRDE identified in 2017: increased student achievement (as measured by META-PR scores and graduation rates), stronger professional development for directors and teachers, and additional effort to support the developmental needs of the whole child. [94] As such, the Government's overhaul must:

- Implement PRDE's 2022-27 strategic plan to guide reforms
- Launch evidence-based curriculum reforms
- Create a post-COVID-19 back-to-school plan and learning acceleration strategy
- Improve professional development opportunities for all staff
- Make targeted investments to boost family engagement
- Systematically collect, manage, and leverage data for better decision-making

These reforms must collectively aim to strengthen system-wide accountability among educators and administrators; facilitate data-driven leadership at the central, regional, and school level; and increase PRDE's responsiveness to the needs of the whole child and the broader community on the Island. Moreover, the Oversight Board welcomes PRDE, its non-Government partners, and other Government agencies to design and propose further innovative reforms to strengthen PRDE schools and mitigate the ongoing challenges of the COVID-19 pandemic and its residual impacts.

8.1 Implement a strategic plan to guide reforms

Successful education reforms require a strategic and operational foundation to succeed. Before PRDE can transform the Island's schools, it should understand how student needs (e.g., academics challenges, curricular resources, social-emotional support) vary across schools, especially in light of the impacts of the COVID-19 pandemic, and centralize its strategic efforts to ensure consistent implementation.

8.1.1 Specific initiatives and design parameters

The 2022 Fiscal Plan requires that PRDE execute the following actions to establish a foundation for education reforms:

- **Create a Chief Operating Officer function**
- **Implement the 2022-2027 strategic plan** to achieve defined KPIs, improvement targets, and milestones; codify an operational model that clearly delineates central, regional, and local administrators' responsibilities around the implementation of education reforms; and realize strategies for central, regional, and local administrators to implement differentiated interventions based on individual needs of students.

[94] The fourth improvement area—right-sizing schools to optimize resources, improve responsiveness, and strengthen regional and local management—is addressed in *Section 14.3*.

8.1.2 Current state and path forward

In April 2021, PRDE defined improvement goals and strategies while developing its 2022-27 strategic plan. However, PRDE must also still create a Chief Operating Officer (COO) function to lead PRDE operations and oversee the day-to-day implementation of reforms. To complement these efforts, the Department must also strengthen financial management capabilities within the existing CFO's office and create a roadmap to guide spending at all levels, as outlined in *Section 14.3*.

To establish the strong foundation required to implement education reforms, PRDE's Central Office must accomplish the following actions by their respective deadlines. Implementation of the PRDE efficiency measures stipulated in *Section 14.3*, which will promote the more effective management and use of Departmental resources, will further strengthen education reform efforts' likelihood of success.

EXHIBIT 43: REQUIRED IMPLEMENTATION ACTIONS TO ESTABLISH ENABLERS FOR EDUCATION REFORM

	Action item	Owner	Deadline
To be completed in FY2021	Segment all PRDE schools	PRDE	Completed
	Define KPIs, targets, and milestones for each achievement tier to evaluate the impact of education reforms and share them with the Oversight Board	PRDE	Completed
	Discuss KPIs, targets, and milestones with the Oversight Board	PRDE	Completed
	Discuss progress made in the development of a preliminary 2022-27 strategic plan with the Oversight Board (check-in #1)	PRDE	Completed
	Discuss progress made in the development of a preliminary 2022-27 strategic plan with the Oversight Board (check-in #2)	PRDE	Completed
	Share a preliminary 2022-27 strategic plan with (1) professional development, (2) curricular and distance learning, (3) family engagement, (4) data-driven, and (5) other viable reforms for each achievement tier with the Oversight Board (check-in #3)	PRDE	Completed
	Discuss preliminary strategic plan draft and projected costs with Oversight Board	PRDE	Completed
	Finalize strategic plan and share with Oversight Board	PRDE	Completed
	Launch search for a COO	PRDE	Delayed – July 1, 2020
	Identify a COO	PRDE	Delayed – December 15, 2020
	Discuss finalized strategic plan and projected costs with Oversight Board	PRDE	January 31, 2021
To be completed in FY2022 and beyond	Implement 2022-27 strategic plan	PRDE	Ongoing through June 30, 2027
	Monitor KPIs, targets, and milestones for each achievement tier to evaluate the impact of education reforms and share updates with the Oversight Board	PRDE	Ongoing through June 30, 2027
	Publish annual reform implementation progress report	PRDE	Annually from June 30, 2022
	Discuss annual implementation progress report with Oversight Board	PRDE	Annually from August 15, 2022

1 In particular, PRDE should focus on (1) strengthening budget oversight and forecasting capabilities, (2) integrating ERP and HRIS systems to improve financial and personnel management capabilities, (3) professionalizing its procurement office to reduce fraud and waste and improve category purchasing strategies, (4) identifying top-10 contracts to analyze to identify and renegotiate to attain cost savings, and (5) strengthening overall financial controls to maximize operational efficiencies.

8.2 Launch evidence-based curriculum reforms

PRDE must overhaul its curriculum and leverage supplemental learning opportunities, especially digital aids, to achieve significant increases in student proficiency. PRDE's curriculum is in need of end-to-end standardization around evidence-based best practices, but flexibility needs to be preserved so educators can meet the diverse learning needs of all students and address requirements within Special Education students' IEPs. For Puerto Rico's children and guard against learning Finally, to best meet the needs of PRDE students, the new curriculum and materials should incorporate leading practices in social-emotional learning.

8.2.1 Specific initiatives and design parameters

The 2022 Fiscal Plan requires that PRDE execute the following actions to strengthen its curriculum:

- **Assess the impact of current curricular spend on student performance** to direct resources to evidence-based curriculum and instructional strategies to benefit the greatest number of General and Special Education students, while still providing all additional support required by Special Education students' Individualized Education Plans (IEPs). PRDE should design a new curriculum to address the areas of most-significant academic and developmental (i.e., social-emotional) need across the PRDE system.
- **Implement innovative learning strategies** to empower students through curricular innovations such as project-based learning (PBL). These approaches aim to build foundational problem-solving skills (e.g., synthesis, analysis) through a "real world" application conducive to long-term information retention, and empower all educators—through the use of formative assessments (e.g., checks for understanding, weekly quizzes, student-teacher feedback sessions)—to boost student achievement, quality of work, information retention, and attendance.[95,96] Such strategies should also embed social-emotional skill building within the school day.
- **Bolster learning strategies with proven digital aids** to equip educators with learning resources (e.g., lessons, assessments) and other curricular materials tailored to each student's developmental needs, to boost student performance and instruction.[97,98] Digital resources also allow for more curricular choice, differentiation in learning style, and remediation/extension opportunities at lower cost and larger scale.

8.2.2 Current state and path forward

PRDE's current curriculum does not adequately support the needs of all General and Special Education students, and many teachers lack the pedagogical strategies needed to maximize student outcomes with current curricular resources. The Department also lacks a sense for how its curricular spend translates into student impact, preventing PRDE from reallocating resources to maximize performance. Likewise, PRDE has not yet implemented innovative teaching strategies—such as project-based learning—across all schools, further inhibiting student performance.

Federal and Commonwealth funding has eliminated major barriers to digital education within and outside of PRDE schools. Furthermore, all active schools have wired internet access and all students will have wireless internet during the Spring semester of 2022. PRDE is in the process of identifying beneficial digital aids (e.g., supplemental digital resources) to enhance student performance inside schools.[99]

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95 Unlike traditional learning environments (which evaluate learning at a unit's end), PBL emphasizes ongoing learning and evidence-based argumentation. Studies spanning more than 40 years have linked PBL to stronger long-term information retention, skill development, and student and teacher satisfaction than traditional educational approaches; see Strobel, et. al., "When is PBL more effective? A meta-synthesis of meta-analyses comparing PBL to conventional classrooms," 2009

96 Formative assessments have been linked to gains in student achievement, with especially strong results among previously underperforming learners, as well as higher quality student work, better student attendance, and increased retention. See Bakula, "The Benefits of Formative Assessments for Teaching and Learning," 2010, and Hanover Research, "The Impact of Formative Assessment and Learning Intentions on Student Achievement," 2014

97 Miami-Dade County Public Schools (FL) piloted Voxy, an English-learning software with adaptive learning capabilities, to strengthen ESL instruction. Students with one semester of exposure to the program improved an average of 15% on the Language Proficiency Assessment, while their non-Voxy peers only averaged a 3.5% improvement

98 For example, in Uruguay, a nationwide initiative used laptops that had previously been distributed to elementary schoolers to improve ELL instruction, driving meaningful improvements in participants' reading and writing scores

99 Wireless initiatives have been funded through a combination of federal E-Rate and RESTART funds. The Federal Communications Commission's E-Rate program offers eligible schools and libraries discounted telecommunications products and services, including internet connections, on the basis of local poverty levels; see Federal Communications Commission, "E-Rate: Universal Service Program for Schools and Libraries," 2020

While the Oversight Board encourages the Department to select interventions that align most-closely with its 2022-27 strategic plan, PRDE must accomplish the action items outlined in *Exhibit 44* by their respective deadlines.

EXHIBIT 44: REQUIRED IMPLEMENTATION ACTIONS TO STRENGTHEN CURRICULUM

	Action item	Owner	Deadline
To be completed in FY2021	▪ PRDE to launch a school competition for education innovation and create an application process for school leaders that have ideas to positively impact student achievement through innovative programs or practices	▪ PRDE	▪ Completed
	▪ Design curricular reform to complement distance learning strategy and leverage (1) student performance assessments, (2) innovative learning strategies, and (3) proven digital aids, and (4) other viable interventions to strengthen PRDE's curriculum at each achievement tier as part of the preliminary strategic plan	▪ PRDE	▪ Completed
	▪ Finalize updates to curricular reforms as part of the updated strategic plan	▪ PRDE	▪ Completed
To be completed in FY2022	▪ Monitor winning projects from the school innovation initiative and assess their impact on student achievement	▪ PRDE	▪ June 30, 2022
	▪ Update curricular reform section within annual reform implementation progress report	▪ PRDE	▪ Annually from July 31, 2022

8.3 Create a post-COVID-19 back-to-school plan and stand up distance learning capabilities

While implementing evidence-based reforms is an important near-term goal, the most immediate priority for PRDE must be to continue to refine plans for students in the 2021-2022 school year in response to the impact of the COVID-19 pandemic. This planning process must include a comprehensive learning acceleration strategy, including ample social-emotional support; a distance/ hybrid learning strategy; and a path to reopen as many schools as safely as possible, which is a requirement for PRDE to receive the ESSER funds allocated to Puerto Rico under the ARP Act.

8.3.1 Specific initiatives and design parameters

- **Return to in-person learning** must combine public health guidance, PRDE management expertise, stakeholder input, and research on national and international learning acceleration approaches to develop the right plan for Puerto Rico's public school system. Nearly every education system in the world is currently navigating this exact challenge, and Puerto Rico can learn from the successes and failures of others. In addition to creating the right plan, PRDE will also have to effectively implement it. The impact of the COVID-19 pandemic on top of the 2017 hurricanes and 2020 earthquakes continues to require additional safety measures on top of accelerated learning strategies and greater support for students and educators.
- **Social-emotional support** will help ensure students have the mental and emotional capacity to focus on their studies. Several months into the COVID-19 pandemic, half of U.S. K-12 students indicated a lack of focus on their learning, and 59% stated an inability to motivate themselves to do schoolwork in a virtual setting.[100] PRDE must address this gap by investing in high-quality social-emotional support, especially given that 46% of K-12 students cite depression, stress, and/or anxiety as an obstacle to learning due to the crisis.[101] These challenges remain even as students return for in-person classes due to the combined effects of a public health crisis, social isolation, and economic issues for many families. Previous research has shown that in addition to improving core social competencies, high-quality

[100] Youth Truth, Learning and Well-Being During COVID-19 Survey*: Part I*, 2020
[101] Youth Truth, Learning and Well-Being During COVID-19 Survey*: Part II*, 2020

social-emotional learning (SEL) programming can improve students' academic performance by 11%.[102] The 2022 Fiscal Plan includes additional funds, once stimulus funds expire, to hire school personnel, such as school nurses, school psychologists, and teachers who are trained and developed to address students holistic needs that extend beyond academics, such as mental wellness and social emotional well-being.

- **Innovative, proven educational interventions to accelerate learning** will target students' highest academic needs. These intervention strategies will be most effective if PRDE leverages data to differentiate support. PRDE can learn from the practices of schools such as New York City Department of Education's transfer schools, English Language Learners and International Support (ELLIS) Preparatory Academy (New York), and Rocketship Public Schools (Bay Area, Milwaukee, Nashville, and Washington D.C.), which have effectively supported students who are behind their grade level before and after the COVID-19 pandemic. Several strategies common to these schools include extensive academic and social-emotional diagnostic assessments, cross-content collaboration, flexible scheduling, peer support and collaboration, and deep community partnerships.[103]

- **Actively monitoring student attendance is a basic, yet critical function of the education system.** PRDE must actively monitor student attendance to ensure the health and safety of students and provide interventions for students at risk of truancy. However, it is an area in which PRDE has struggled. Data from Fall 2021 indicates that only about one-fifth of teachers had entered attendance data for 95% or more of their class periods in PRDE's Student Information System (SIS) on the same day that classes occurred.[104] According to PRDE's own student retention policy, teachers are responsible for tracking student attendance habits to identify and flag chronic absenteeism, an end goal, which is nearly impossible without accurate and timely data. During this past school year, PRDE began addressing this recurring issue by providing updated guidance on attendance-taking in a remote environment to teachers and implementing attendance-taking reports for school directors. The attendance taking requirement was part of the 2021 Certified Fiscal Plan as an incentive which provided a $5,000 award for schools that reach a teacher time reporting threshold of at least 95%. The Department can further promote accountability of student attendance-taking through system updates that encourage timely data entry. As per 2022 Fiscal Plan, 90% or more of teachers at each school, across the 7 regions, are required to submit student attendance through the SIS. Additionally, meeting this condition is linked to a potential second salary increase for teachers (see *Section 14.3*).

- **Teacher absenteeism** is another historical issue that PRDE has confronted. Students need reliable interaction with a consistent adult resource to support their learning and development. In FY2021, PRDE took steps to improve its ability to track teacher attendance and respond to chronic absenteeism by integrating the Kronos time management system with the payroll and HR systems. This change will also have significant financial benefits for the Department, as an Oversight Board analysis found that PRDE made at least $80 million in payments over 13 years to employees who had resigned, retired, died, or were otherwise not working. In March 2021, the Department finalized its Time & Attendance effort (referenced above) and implemented the first round of payroll deductions for teachers based on missed class time, per the updated public policy. The use of an automated T&A system (Kronos) to register presence at work is tied to a potential second salary increase milestone for teachers in the 2022 Fiscal Plan (see *Section 14.3* for more detail).

- **Distance learning strategies** continue to be a critical element of educating students during the pandemic. PRDE must continue its learning acceleration efforts especially given the amount of out-of-school time children in Puerto Rico have experienced over the past several years. Distance learning should be accessible on a moment's notice as it could potentially be

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[102] Edutopia, Social and Emotional Learning Research Review, 2012

[103] NYSED; Bridges SIFE Manual; ELLIS Prep Academy SCEP

[104] Gobierno de Puerto Rico Departamento de Educación, "Informe de la toma de asistencia," 2021

the default delivery model for some students in the case of future public health or environmental crises. PRDE's distance learning plan should include strategies to enable instructional delivery (e.g., adaptive curriculum), support vulnerable populations, professional development mechanisms for teachers, and technology deployment. In FY2022, PRDE continued to build out its distance learning capabilities, including recurring trainings on new technology tools for staff, parents, and students, as well as working to create a distance learning public policy with referenceable standard practices for the PRDE community. Although PRDE has procured thousands of devices for students and teachers and provided programming to offer $40 vouchers for internet service through June 2022, the deployment of these resources alone does not constitute a learning strategy. PRDE must also follow through with commitments to developing a Learning Management System (LMS) and a more digitally focused curriculum as described in the Curriculum Reform section of this chapter. PRDE should seek to leverage strategies that have proven successful, focusing on delivering high-quality instruction with appropriate professional supports for teachers.

8.3.2 Current state and path forward

Even without knowing the full effects of the disruption of the 2020-2021 academic year, PRDE has started to address the increased support that children so desperately need during this turbulent time, including launching a tutoring program in partnership with the University of Puerto Rico (UPR) to provide extra support in Math, English, and Spanish. PRDE also hired school nurses in every school and psychologists in ~72% of schools to provide physical, emotional, and mental health resources. While these steps are a start to installing critical support structures and programs, PRDE will need scaled strategies that impact all schools to most effectively accelerate learning and care for the social-emotional well-being of all students. As the pandemic landscape evolves, PRDE should continue to plan for all possible school scenarios and learn from its previous in-person learning strategies, including reopening ~750 school buildings in Fall of 2021.

Reopening schools is contingent upon PRDE taking all necessary measures to protect the health and safety of students and staff by reviewing and updating existing safety protocols to protect the community.

Funding for initiatives to address the impacts of the COVID-19 pandemic should come from the various funding sources previously mentioned in this chapter; for example, these efforts are an allowable expense under federal funding from the American Rescue Plan (ARP) Act. *Exhibit 45* describes some of the key implementation actions that are critical to this initiative.

EXHIBIT 45: BACK-TO-SCHOOL AND DISTANCE LEARNING IMPLEMENTATION ACTIONS

	Action item	Owner	Deadline
To be completed in FY2021	Develop plans and protocols to deliver remote instruction, and support parents and teachers June 2020 through remainder of 2019-20 school year	PRDE	Completed
	Assess which portions of the curriculum will be areas of focus during remote learning period, balancing accessibility and equity	PRDE	Completed
	Rapidly provide Professional Development and platform for digital community/connection as educators seek to exchange ideas and best practices for remote instruction	PRDE	Completed
	Assess summer scenarios by exploring options to provide ongoing learning opportunities and/or programming for students during summer months	PRDE	Completed
	Identify gaps in IT systems and infrastructure to enable seamless online learning and teaching June 2020 experience	PRDE	Completed
	Define criteria for selection of technology vendors, including long-term viability, scalability of platform, and data security among others	PRDE	Completed
	Distribute devices and support students' and educators' hardware and connectivity needs as July/August they transition to remote learning 2020	PRDE	Completed
	Coordinate with Academics team and educators to reflect on best practices in remote learning environments, and streamline technology to support better integration of education delivery and instructional strategies	PRDE	Completed
	Evaluate effectiveness of technology tools and platforms, and improve processes underpinning remote operations (e.g., systems to connect administration and learning, devices and training)	PRDE	Completed
	Develop more comprehensive asset management strategy, including asset inventory reviews, to support remote learning	PRDE	Completed
To be completed in FY2021	Reflect on what worked this spring, challenges, and emerging best practices to develop a plan August 2020 to strength instructional delivery (regardless of setting)	PRDE	Completed
	Provide new professional development for educators that reflects the now-different demands of their jobs, and the likely need for flexible instructional tactics going forward	PRDE	Completed
	Engage in scenario planning for fall instruction (various delivery channels, adjusted curriculum), and plan for altered curriculum and schedules for fall	PRDE	Completed
	Develop plan to assess impact of COVID-related school closures on student learning and progress	PRDE	Completed
	Assess impact of remote learning and remediate lost learning time by doubling down on English, Spanish, Science and math	PRDE	Completed
	Offer additional mental health services and social-emotional supports for students, who will have had a wide variety of at-home experiences over the last 6 months	PRDE	Completed
	Create specific plans, pathways, and supports for students in key transition grades to ensure that they have the supports necessary to be successful without having completed the prior grade in-person	PRDE	Completed
	Provide educators with ongoing support and professional practice opportunities to improve regardless of delivery channel	PRDE	Completed
	Assess security, bandwidth and resiliency of current IT infrastructure and invest to shore up gaps identified	PRDE	Completed
	Review and alter cybersecurity processes and protocols to reflect changes in technology infrastructure and use	PRDE	Completed
	Identify opportunities improve efficiency and security of technology portfolio, infrastructure, and operating model	PRDE	Completed
	Invest in online learning infrastructure to ensure resiliency of remote learning environment	PRDE	Delayed – December 2020

	Action item	Owner	Deadline
To be completed in FY2022	▪ Design and implement a comprehensive SEL strategy that mentally prepares students to engage in learning and strengthens the student/teacher relationship (e.g., student advisory programs, community engagement forums); include feedback loops to assess program impact on student mental health / social-emotional development	▪ PRDE	▪ Completed
	▪ Reach a student time reporting threshold of at least 95% (as measured by % of all teachers recording student attendance within the SIE system at the end of a school day) with proof of physically marking students present over the course of the semester	▪ PRDE	▪ Delayed – October 31, 2021
	▪ Reach a teacher time reporting threshold of at least 95% teacher attendance across all schools as measured by punching in via the Kronos system (in-person or remote)	▪ PRDE	▪ May 1, 2022
	▪ Quantify learning gaps through diagnostic assessments and identify highest need academic areas and student populations	▪ PRDE	▪ June 30, 2022
	▪ Prepare and implement an action plan to address identified learning gaps through research-backed interventions (e.g., high frequency tutoring, targeted remediation sessions)	▪ PRDE	▪ June 30, 2022

8.4 Improve professional development opportunities for directors and teachers

PRDE must strengthen longer-term professional development for teachers and directors to improve classroom instruction and school management. Well-trained teachers are better equipped to develop strong lesson plans, understand their curricula, and support their students.[105] Similarly, well-trained school directors are better equipped to improve school operations, implement reforms, and oversee the development of teachers when they receive robust training on how to do so.

In addition to the importance of developing academic staff, a significant factor driving PRDE's underperformance is a lack of capacity within the system to execute complex strategies in a challenging educational environment. Many senior members within the Department do not have extensive educational backgrounds, and there is high turnover at the leadership level—a problem magnified during gubernatorial transitions. Additionally, PRDE's Human Resources office lacks a clear talent management function to support the recruitment, development, and retention of effective employees across the organization. To best leverage and build upon the talent in the system, PRDE should strive to provide opportunities for continuous learning through professional development programs, particularly by leveraging the training partnership with the University of Puerto Rico (UPR). These programs should be differentiated based on the level and function of the staff member to best support skills most relevant to his or her role. Instituting these changes will result in well-trained staff who understand how to improve the system.

8.4.1 Specific initiatives and design parameters

The 2022 Fiscal Plan requires that PRDE adhere to a set of parameters when implementing this reform. Specifically, PRDE must:

- **Invest in school director development** to tap into a key lever for improving student outcomes. A recent study from the Wallace Foundation found that replacing a below-average elementary school principal (the equivalent to PRDE's school director position) with an above-average one would result in nearly 3 months of learning gains in both math and reading, which is a larger impact than two-thirds of other math interventions and about half of reading interventions.[106] On average, PRDE school directors scored lower (2.3 out of 4) than mainland

[105] Investigators found that a one standard deviation increase in teacher quality in a single grade raises annual earnings by 1% on average. Moreover, researchers linked the replacement of a low (bottom 5%) value-added teacher with an average value-added teacher to a $267,000 increase in students' average lifetime incomes per classroom taught; see Chetty, et. al, "The Long-Term Impacts of Teachers: Teacher Value-Added and Student Outcomes in Adulthood," 2011

[106] Wallace Foundation, *How Principals Affect Students and School,* 2021

U.S. principals (2.8) on the Development World Management survey, indicating room for improvement.107 To close this gap and improve principal effectiveness, PRDE has engaged in a research-practice partnership with the University of Toronto to offer Academia de Desarrollo Profesional de la Educación para la Gestión de Liderazgo y la Profesionalización (EDUGESPRO), a professional development & management training program, to all school directors by the end of FY2022. PRDE should continue to monitor the impact of these efforts and engage in other evidence-based programs tied to school director recruitment and ongoing development.

- **Define operational and results-based criteria** that will provide the Central Office with additional input in identifying the top-performing directors and teachers across PRDE, enabling PRDE to broaden mentorship opportunities that introduce underperforming educators to best practices (e.g., by reducing top-performers' workloads to leverage them as formal mentors trained via the University of Puerto Rico-PRDE partnership and hiring job-embedded coaches to serve as full-time mentors), and offering evaluators across PRDE schools (e.g., superintendents, gerentes escolares, facilitators) a clear structure against which to provide directors and teachers performance-based feedback.
- **Formalize communities of practice across PRDE schools** to expose teachers and directors to instructional, administrative, and social-developmental best practices, and strengthen ELL, K-5 literacy, and STEM instruction (especially K-5 mathematics) through robust mentorship (e.g., all low-performing teachers could be assigned a high-performing mentor to help them develop their strengths and address their weaknesses).[108,109]
- **Fully leverage the K-12 teacher training partnership between the University of Puerto Rico (UPR) and PRDE** made possible by a $10 million annual Commonwealth payment to the university-to subsidize teacher certification and training in core subjects (e.g., English, mathematics, and science) and practices (e.g., classroom management, how to design effective assessments) to improve instructional quality, and expand the availability of teacher preparation classes that address specific areas of Departmental underperformance (e.g., coursework on how to identify, support, and find additional assistance for students with academic or behavioral challenges).
- **Capitalize on partnerships with education non-governmental organizations (NGOs)** to establish a high-quality fellowship program to train motivated and high-quality professionals on the Island to transition into careers in education and develop long-term home-grown solutions to instructional or administrative challenges (e.g., how to develop teacher evaluations that measure value-add behaviors).[110]
- **Introduce universal student screenings conducted by PRDE school psychologists[111] alongside a Multi-Tiered System of Support (MTSS)[112] framework** to: a) ensure that every student's developmental needs are routinely identified and met to prevent children from being erroneously categorized as Special Education

[107] University of Toronto, *Improving and Sustaining Management Practices in Public Schools: Report Year 1*, 2020

[108] Communities of practice offer teachers and administrators a forum to meet their counterparts to discuss best practices and solve classroom challenge

[109] In California, Long Beach Unified School District has used formal CoPs to improve English language learning (ELL) test scores–a top priority for PRDE–by 9% since 2015

[110] Some partnerships are already yielding benefits; an ongoing PRDE-Puerto Rico Education Foundation (PREF) initiative has provided administrators guidance on how to manage a regional education system. As part of this effort, PREF identified of barriers to improved student outcomes in Bayamon ORE and proposed several solutions

[111] To identify students with academic or behavioral learning challenges, screenings should be brief, sensitive to change over time, and grounded in research

[112] The MTSS framework is a three-tiered approach to identify and meet the needs of General and Special Education students in the least-restrictive setting possible (as required by law). It stresses the use of a pedagogical approach that evaluates the academic, behavioral, and social-emotional needs of the "whole child" to place students into the appropriate tier. The first tier (80-85% of students) includes all General Education and many Special Education students and uses universal screenings to identify learning or behavioral challenges. The second tier (10-15% of students) includes Special Education students with additional academic or behavioral goals that respond to support in a targeted small group setting. The tertiary prevention tier (3-5% of students) offers students that do not respond to second tier interventions individualized support and assistance

students; b) understand the academic, behavioral, and social-emotional needs of the whole child to pair every student with appropriate interventions (e.g., small group lessons for certain Special Education students); c) ensure that every Special Education student receives services required by their Individualized Education Plans (IEPs) in the least restrictive setting possible (e.g., reading comprehension support in a General Education classroom); and d) reduce the use of costly professional services firms to execute IEP analyses and other support services required by Special Education students (e.g., by leveraging in-house developmental staff). It is important to note that successful MTSS implementation is contingent upon high-quality data and data systems.

8.4.2 Current state and path forward

Despite the importance of professional development, PRDE currently lacks a standardized approach to delivering such programs. PRDE has proposed strengthening its STEM offerings, boosting literacy proficiency and bilingualism, and teaching more "real world" or actionable skills. To further these goals, the Oversight Board has allocated funding to several initiatives intended to improve student instruction and outcomes by supporting more robust professional development within PRDE, including the UPR-PRDE teacher training partnership and programming to train ELL instructors across the Island. The UPR-PRDE partnership is intended to offer PRDE educators robust training opportunities to help them develop capabilities and skillsets actively sought by the Department. The initiative is made possible through a $10 million annual appropriation from the Commonwealth to UPR. In FY2021, PRDE used $9 million of these available funds to launch credit-bearing courses and leadership academies and allocated a maximum of $10 million to the tutoring program for students (with ~$4.6 million already incurred).

The Oversight Board encourages PRDE to select interventions that align most-closely with its 2022-27 strategic plan, but stresses that the Department must complete the following action items by their respective deadlines:

EXHIBIT 46: REQUIRED IMPLEMENTATION ACTIONS TO STRENGTHEN PROFESSIONAL DEVELOPMENT

	Action item	Owner	Deadline
To be completed in FY2021	▪ Work with the non-profit organizations to apply for discretionary Federal grant to defray expenses associated with training ELL instructors	▪ PRDE	▪ Completed
	▪ Launch NGO partnership to hire and train high-quality ELL instructors	▪ PRDE	▪ Completed
	▪ Train all developmental support staff in how to leverage the MTSS framework to better support the needs of all students	▪ PRDE	▪ Completed
	▪ Finalize updates to PD reforms as part of updated strategic plan	▪ PRDE	▪ Completed
	▪ Design professional development reform that leverages (1) effectiveness criteria, (2) learning walks and communities of progress (3) the PRDE-UPR partnership, (4) partnerships with non-profit organization (5) internal development staff and the MTSS framework, and (6) other viable interventions	▪ PRDE	▪ Delayed – February 15, 2021
To be completed in FY2022	▪ Develop a pipeline program for high-quality school directors that addresses targeted external recruitment and development opportunities for high potential internal candidates	▪ PRDE	▪ May 1, 2022
	▪ Finalize professional development section of annual reform implementation progress report	▪ PRDE	▪ Annually from June 30, 2022
To be completed in FY2023	▪ Establish and implement a strategy to leverage UPR and NGO partnerships to provide professional development for teachers and school directors that intentionally targets skills related to accelerating learning, providing social-emotional support, and improving management (e.g., professional learning communities, coaching)	▪ PRDE	▪ December 15, 2022

8.5 Make targeted investments to boost family engagement

Given the relationship between family engagement and student achievement, PRDE must broaden its efforts to promote robust family engagement in its students' academic lives.[113] Parental involvement is one of five key factors that, when present, makes schools ten times likelier to drive meaningful improvements in student performance.[114] Comprehensive family engagement, meanwhile, can magnify the benefits of parental involvement and has been linked to higher levels of academic performance, stronger student motivation, fewer behavioral problems, and easier social-emotional adjustment.[115] As such, PRDE should leverage non-digital and digital tools, as well proven family engagement strategies, to facilitate robust and impactful family engagement.

8.5.1 Specific initiatives and design parameters

The 2022 Fiscal Plan requires that PRDE adhere to a set of parameters. Specifically, PRDE must:

- **Utilize non-digital and digital engagement tools** to empower families to obtain a robust picture of their child's academic trajectory (e.g., through individualized emails, use of a student information system containing student grades and attendance data), identify opportunities to volunteer in their student's school (e.g., through a weekly newsletter), and enable parents of Special Education students to more effectively advocate for and support the needs of their child (e.g., guide to Special Education services).
- **Leverage proven family engagement strategies** to better equip parents and teachers, using strengths-based approaches and relationship-based practices, to collaborate as equal partners in a child's development and improve student outcomes (especially for Special Education students), and achievement, through two-generation partnerships, which directly intertwine the education of children with parents to improve outcomes for both (e.g., offer parents job training alongside high-quality after-school programs for their children).[116,117]
- **Regularly survey the families of PRDE students** to empower directors and teachers to understand how well they are supporting students' academic development and identifying opportunities to better meet the needs of the whole child (e.g., improve safety, provide additional behavioral support).

8.5.2 Current state and path forward

PRDE has taken initial steps to boost family engagement, but the Department must standardize the use of tools and strategies to maximize the impact of its family engagement efforts. In 2018, PRDE created an office of family engagement. While this office is a step in the right direction, the broader Department has yet to institutionalize the use of non-digital and digital tools to give parents a more robust sense of their child's performance. Moreover, the Department has not yet

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[113] A family engagement partnership between District of Columbia Public Schools and local parents, for example, yielded improved student literacy scores and boosted student attendance by 24%

[114] The other four factors are the (1) use of an instructional guidance system to articulate the "what" and "how" of teaching, (2) professional capacity to improve instruction, (3) the presence of a student-centered learning climate, and (4) strong leadership from principals; see Bryk, et. al., *Organizing Schools for Improvement: Lessons from Chicago,* 2010

[115] Examples of comprehensive family engagement include setting clear academic expectations and helping children develop strong reading habits; see Castro, et. al., "Parental Involvement on Student Academic Achievement: A Meta-Analysis," 2015; Niehaus, et. al., "School Support, Parental Involvement, and Academic and Social-Emotional Outcomes for English Language Learners," 2014

[116] Under a strengths-based approach, educators engage with parents as partners in a child's education, leverage parents to broaden their understanding of a student's needs, and work with families to identify opportunities to reinforce in-class lessons outside of school. Relationship-based practices promote reflection on families' personal backgrounds to shape interactions and use parents' emotions around their child's education to establish common ground between educators and households

[117] For example, a 2-Gen partnership in St. Clair, AL successfully graduated 100% of adult participants from a pharmacy technician program at a local college while improving student attendance at an educational after-school program

trained administrators or teachers in the use of proven family engagement strategies to foster more effective family engagement.[118]

While the Oversight Board encourages the Department to pursue interventions that align most-closely with its 2022-27 strategic plan, PRDE must accomplish the action items outlined in *Exhibit 47* by their respective deadlines.

EXHIBIT 47: REQUIRED IMPLEMENTATION ACTIONS TO BOOST FAMILY ENGAGEMENT

	Action item	Owner	Deadline
To be completed in FY2021	▪ Finalize updates to family engagement as part of the updated strategic plan	▪ PRDE	▪ Completed
	▪ Design family engagement strategy that leverages (1) non-digital and digital tools, (2) proven engagement strategies, (3) fielding family surveys, and (4) other viable interventions to boost family engagement at each achievement tier as part of the preliminary strategic plan	▪ PRDE	▪ March 31, 2022
To be completed in FY2022 and beyond	▪ Distribute family survey	▪ PRDE	▪ Every six months from October 15, 2021
	▪ Update family engagement reform section within annual reform implementation progress report	▪ PRDE	▪ Annually from July 15, 2022

8.6 Systematically collect, manage, and leverage data

Regular data collection, management, and analysis will empower PRDE to make informed decisions to improve student outcomes and assess the effectiveness of its reform efforts. Evidence from the U.S. suggests that data collection and analysis will enable PRDE to better direct resources toward impactful evidence-based curricular resources and instructional strategies, make targeted and timely interventions to support vulnerable student populations, and assess the impact of education reforms.[119] In turn, access to these datasets and analyses will empower educators, families, and third-parties to further improve student outcomes.

8.6.1 Specific initiatives and design parameters

The 2022 Fiscal Plan requires that PRDE adheres to a set of parameters to strengthen family engagement:

- **Identify which data is crucial to the optimization of funding, identification of intervention opportunities, and evaluation of reform effectiveness** in order to conduct a diagnostic of readily-trackable data within PRDE, understand which systems to connect, consolidate, or eliminate, and engage internal and external resources as needed to develop currently unavailable data-tracking capabilities.
- **Implement a data management system that allows superintendents, *gerentes escolares,* and facilitators to quickly access relevant regional, school, and student data** to evaluate student achievement (e.g., META-PR scores, grade point averages) and performance trends (e.g., attendance, truancy/drop-outs; disciplinary referrals) in real-time. This includes digitizing Special Education students' IEP documentation to facilitate compliance with IEP requirements, which PRDE has accomplished.[120] This enables PRDE to more effectively staff and budget Special Education and *Remedio Provisonal* programming. These improved systems will improve resource allocation (e.g., regional support teams) to

118 *Noticel*, "Nace nueva oficina en el Departamento de Educación," 2018

119 For example, in Texas, the state education agency uses the Student Data System (TSDS) to collect, manage, and produce individual student dashboards for educators to evaluate important information, such as college readiness trends. Similarly, in Kentucky, the Center for Education and Workforce Statistics collects statewide government data to support informed K-12 policymaking at the state, district, and school levels

120 .More robust initial compliance with IEP requirements could reduce costly expenses currently incurred through the use of *Remedio Provisional* as a result of untimely or inadequate support for Special Education students

support underperforming, vulnerable, or Special Education student populations and allow PRDE to measure the impact of education reforms on student outcomes and teacher satisfaction.

- **Enable directors and other school administrators to access the data management system** to support the implementation of the evidence-based progress-monitoring required for the operationalization of the MTSS framework to support all General and Special Education students in the least restrictive manner possible, evaluate the performance of teachers and students relative to key metrics or Departmental policies (e.g., revised time and attendance guidelines), tailor teacher professional development opportunities to address the most-pressing areas of student underperformance, and optimize the allocation of school resources.
- **Publish anonymized data using the data management system on a regular basis** to facilitate school-specific performance scorecards that include student and teacher attendance, META-PR results, and graduation rates, among other data points. This data will empower educators to reshape their instructional plans (e.g., content, lesson plans, and pacing) in response to student data (e.g., META-PR scores) and allow parents to understand their child's educational trajectory and make home-based interventions when appropriate. Third parties, such as education non-profits and academic researchers, will also be able to better understand and support the educational needs of Puerto Rican students.

8.6.2 Current state and path forward

To optimize the decision-making process, PRDE should first identify the most critical decisions it needs to make on a regular basis and develop a vision for how data and technology can provide support. However, PRDE has made very little progress in collecting or managing data to inform decision-making. To-date, the Department has focused on developing a stronger time and attendance system to track student and teacher attendance. Beyond this, PRDE has yet to train all staff on how to make data-driven decisions and establish a culture of high-quality data collection. The absence of a robust data management system populated by accurate and timely relevant data further inhibits data-driven decision-making. Improved data capabilities will allow leadership, staff, and educators to be more agile in their work, dedicating time, energy, and dollars to efforts that will have the most impact on student outcomes.

Although the Oversight Board encourages PRDE to introduce interventions that align most-closely with its 2022-27 strategic plan, the Department must accomplish the action items outlined in *Exhibit 48* by their respective deadlines.

EXHIBIT 48: REQUIRED IMPLEMENTATION ACTIONS TO FACILITATE DATA-DRIVEN DECISION MAKING

	Action item	Owner	Deadline
To be completed in FY2022 and beyond	▪ Assemble data reform working group comprised of PRDE technical personnel and educators (e.g., directors, teachers, etc.)	▪ PRDE	▪ Completed
	▪ Working group: Define KPIs and ideal technical future state for PRDE data systems (e.g., desired data outputs to appear on student-, school-, and system-wide performance dashboards; most important data for decision-making, etc.)	▪ PRDE	▪ Delayed – August 1, 2021
	▪ Working group: Conduct a review of PRDE's systems architecture to understand gaps between current and ideal technical future state	▪ PRDE	▪ Delayed – September 15. 2021
	▪ Central office: Update scorecards to reflect the most recent information for school year 2020-2021 and provide reporting to the Oversight Board on agreed upon format	▪ PRDE	▪ Delayed – September 15, 2021
	▪ Working group: Design implementation roadmap (including training on new systems and tools) and identify all relevant stakeholders needed to achieve ideal technical future state	▪ PRDE	▪ Delayed – October 31, 2021
	▪ Technical staff: Once implementation roadmap is finalized, begin execution, including monthly progress reports to the Oversight Board	▪ PRDE	▪ Delayed – December 2021 to December 2022
	▪ Central office: Update data reform section within annual implementation progress report	▪ PRDE	▪ Annually from June 30, 2022
	▪ Central office: Update data reform section within annual reform implementation progress report	▪ PRDE	▪ Annually from June 30, 2022
	▪ Central office: Train all staff and educators (e.g., directors, teachers) on how to use new data systems and tools	▪ PRDE	▪ July to December 2022
	▪ Central office: Begin sharing anonymized data with the National Center for Education Statistics	▪ PRDE	▪ Ongoing from January 2023
	▪ PRDE schools: Offer educators refresher courses and parents introductory sessions on how to use data systems and tools	▪ PRDE	▪ Ongoing from January 2023

Chapter 9. Ease of doing business reform

9.1 Current state of business regulation, investment promotion, and tourism attraction

When the Fiscal Plan was developed in April 2018, the Government of Puerto Rico used the World Bank's *Doing Business Report*—an independent assessment and ranking of the ease of doing business in 190 economies— to benchmark the business regulatory environment. The Doing Business indicators and methodology were designed to help countries reform their bureaucratic processes to improve the overall business climate. The World Bank did not publish its 2021 report due to irregularities found in the data in the Doing Business 2018 and Doing Business 2020 reports. As a result of these irregularities, the World Bank cancelled the publication of future reports. In the absence of this data and moving forward, the *Doing Business North America* (DBNA) report will be used to compare Puerto Rico with other States. Currently, this data is not available, but the Puerto Rico Institute for Economic Liberty (ILE) compiled the necessary data for the Autonomous Municipality of San Juan to be included in the DBNA report. This will be the first time that a municipality in Puerto Rico will appear in the DBNA report, which is published annually by the Center for the Study of Economic Liberty (CSEL), at Arizona State University. The CSEL states that the DBNA report "provides objective measures of the scale and scope of business regulations in 134 cities across 92 states, provinces, and federal districts of the U.S., Canada, and Mexico. It uses these measures to score and rank cities in regard to how easy or difficult it is to set up, operate, and shut down a business." The report uses 111 variables distributed in the categories: "Geographic Information," "Starting a Business," "Employing Workers," "Getting Electricity," "Paying Taxes," "Land and Space Use," and "Resolving Insolvency." The DBNA report, with the

inclusion of San Juan, will be released in October 2022 and will open the door so that other municipalities on the Island can also be included.

Nevertheless, the data and benchmarking contained in the last published Doing Business report continues to be an excellent resource to compare Puerto Rico's doing business regulatory environment to best-in-class economies and top reformers, particularly in the indicators where Puerto Rico ranked very low. The report provides policymakers with an extensive knowledge base to learn from top performers and identify the regulatory and operational changes necessary to materially improve Puerto Rico's business environment.

Empirical studies have shown that, as a result of business environment reforms, countries have seen increases in firm creation, business activity, investment, and economic growth, after controlling for other relevant variables, such as overall governance and macroeconomic conditions. One study found that "on average, each business regulatory reform is associated with a 0.15% increase in growth rate of GDP."[121] Another concluded that "the overall ease of doing business has a positive and significant effect on business creation."[122] And a study on the impact of the ease of doing business indicators on foreign direct investment (FDI) flows found that "on average across economies, a difference of 1 percentage point in regulatory quality as measured by Doing Business distance to frontier scores is associated with a difference in annual FDI inflows of $250–500 million."[123] In sum, there exists ample theoretical and empirical evidence that effectively designing and implementing ease of doing business reforms has a positive effect on reducing barriers to new firm entry, new business creation, investment, and economic growth.

In 2020, the last World Bank report rated Puerto Rico the 65th most business-friendly economy. By comparison, the U.S. mainland ranked 6th in 2020. Puerto Rico's ranking has declined annually since 2006 when it ranked 18th. The Island competes regionally and internationally for tourism and hospitality investments; internationally for pharmaceutical, life sciences, and medical devices, as well as knowledge services, investments; and, overall, with mainland U.S. states. Given heightened levels of competition in the global marketplace, the Island needs to urgently improve its business-friendliness through implementation of ease of doing business reforms to support economic growth.

Instituting comprehensive reforms is particularly important considering the aftermath and recovery of the COVID-19 pandemic. Companies may look to shift supply chains back to the U.S. Many are evaluating their business models from the experience of having to operate remotely, and many Governments will likely quickly respond to these changing market forces by implementing rapid reforms to capture these opportunities. Therefore, Puerto Rico needs to urgently institute ease of doing business reforms to succeed in attracting new investment. Small businesses continue to face significant uncertainty as economic conditions evolve, underscoring the need to generate economic activity and attract new investments across the Island. Failure to institute reforms may enable U.S. mainland states and rapidly reforming countries to out-compete Puerto Rico for key investments. For example, the Democratic Republic of Georgia has made drastic improvements in its ease of doing business ranking, driven by robust reforms (e.g., streamlining tax compliance, simplifying administrative processes for starting a business, making contract enforcement easier). Georgia has seen its output per capita increase by 66% and its business density triple between 2006 and 2014–the same period in which the country of Georgia improved its ease of doing business ranking from 98th to 8th.

Puerto Rico's relatively low-ranked business-friendliness in the last World Bank Doing Business Survey in 2020 is correlated with deficiencies in Government regulations and processes, including:

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121 Haidar, J. I., The impact of business regulatory reforms on economic growth, 2012

122 Canare, T, "The Effect of Ease of Doing Business on Firm Creation," 2018

123 Anderson, J., & Gonzalez, A., Does Doing Business matter for foreign direct investment? Doing Business, 2013

- **Getting electricity:** The Island's energy supply is costly and unreliable. The cost to obtain an electric connection in Puerto Rico is equal to 318% of income per capita[124]
- **Dealing with construction permits:** Firms spend significant time 165 days, effort (22 procedures), and money (6.7% of project's future value) to obtain permits, on average[125]
- **Registering property:** Companies invest significant amounts of time (190 days) and effort (8 procedures), on average, to register property[126]
- **Paying taxes:** Firms report spending significant time (218 hours) completing filings and making payments (16 payments), on average[127]
- **Occupational licensing laws:** Excessive regulations hinder entry into the labor force. Puerto Rico licenses over 140 professions with excessive requirements and significant cost. With a labor participation rate of less than 40%, many unnecessary requirements constrain economic activity, incentivize shadow economy participation, and accelerate outmigration from Puerto Rico.
- **Freight regulations:** Expanding the use of minimum freight tariffs across previously unregulated sectors of the economy, and other burdensome regulations, inflated transportation costs and increased the complexity of doing business across the Island. While that increased minimum tariff has been stricken, the Commonwealth must look for more opportunities to reduce and eliminate excessive regulation.
- **Tourism attraction:** The Destination Marketing Organization's (DMO) efforts to transform Puerto Rico into a leading tourist destination are undermined by insufficient Government funding and the fact that key functions and responsibilities remain at the Puerto Rico Tourism Company.
- **Offshore investment attraction:** Inadequate Government resourcing and lack of progress on ease of doing business reforms have inhibited efforts to attract major investments, resulting in overreliance on tax incentives as a primary business promotion tool.

The Government's efforts to date implementing ease of doing business reforms have been at best insufficient to compete with other economies demonstrably and indefatigably committed to swiftly improving their business regulatory environment. In 2020, the Government started to implement ease of doing business reforms in some of its processes, but reforms have been slow and not transformative or thorough enough to warrant improvements in investor attitudes.

Compared to the May 2019 Fiscal Plan, delayed implementation of ease of doing business reforms has in turn affected forecasted Gross National Product (GNP) growth. The positive effect of implementation progress on initiatives like permit processing and tax paying automation, equivalent to 0.10%, is still expected to be captured in FY2023, while the 0.2% impact of the rest of initiatives, to be captured over two years, was delayed by one year, from FY2025 to FY2026. In order to accomplish this GNP growth increase, and avoid further delays, the Government should make every effort to prioritize implementing the reforms included in the 2022 Fiscal Plan and dedicate the necessary resources to achieve the implementation targets.

To attain the GNP uptick associated with ease of doing business (EODB) reforms, the Government needs to focus on achieving the following:

- **Improve the availability, cost, and reliability of electricity**

[124] On the mainland, this cost falls to just 22% of income per capita and businesses enjoy much more reliable energy supplies

[125] For comparison, businesses invest 81 days, complete 16 procedures, and pay 0.7% of a project's future value on the mainland according to the World Bank Doing 2020 Doing Business Survey

[126] For comparison, businesses invest 15 days and complete four procedures on the mainland.

[127] For comparison, businesses make 11 payments and invest 175 hours on the mainland; the odds of an audit for a corporate income tax underpayment are also substantially lower on the mainland.

- **Make permits more easily accessible to enable business activity and public safety** by streamlining processes and eliminating procedural inefficiencies (e.g., reallocate underutilized personnel) across permitting agencies ("lean transformations"), digitizing all procedures required to start a business into the Single Business Portal, developing the Permitting Performance Dashboard, and launching the Red Tape Commission to support operational and technical transformations.
- **Overhaul property registration to facilitate financial transactions and promote disaster-preparedness** by identifying and standardizing best practices among registrars to speed up processing, merging the current land registration system with a faster land recordation system, merging the existing land registries into one uniform parcel registry, and launching a campaign to map ownership of all unregistered properties on the Island.
- **Simplify paying taxes to spur economic activity** by designing a tax administration reform that digitizes, consolidates, and eliminates select tax filings, and conducting an operational needs assessment across Hacienda to reallocate personnel.
- **Reduce occupational licensing to facilitate labor force participation** by designing legislative reforms to reduce required licenses and excessive requirements, implementing uniform licensing requirements like those in many U.S. mainland states, and consolidating the processing of occupational licenses under one department.
- **Minimize the negative effect of inefficient on-Island freight regulations by reverting to the interpretation of regulations concerning carriers that was in effect prior to December 23, 2020, ensure that any tariff increases on traditionally regulated segments of the economy are developed in line with best practices and Puerto Rico law with regard to regulatory processes, and minimize the financial barriers to entry in the trucking sector.** The Oversight Board will continue meeting with trucking representatives, the business community, and the Government of Puerto Rico to engage in a constructive dialogue to assess their needs and the best interests of the people of Puerto Rico.
- **Strengthen offshore investment attraction efforts** by implementing a strategy to compete with mainland states and other economies for investments as firms move to shift their supply chains to the U.S. and attracting airline cargo companies through the air cargo and passenger transfer hub waiver granted by the U.S. Department of Transportation.
- **Prime tourism attraction efforts for success** by transferring internal (on-Island), airline, and event marketing responsibilities and funding from the Puerto Rico Tourism Company (PRTC) to Discover Puerto Rico (DPR).

While all reforms will help foster economic growth and job creation, simplifying and digitizing permits (including business registrations), property registration, and paying taxes will have a particularly significant impact.

9.2 Streamline permits to promote business activity and public safety

To foster economic development, promote public safety, and enable recovery from the COVID-19 pandemic, the Government must urgently revamp the Island's permitting system.

As part of the efforts to reform the permitting process, a new Joint Regulation, the Island-wide permitting rules, was implemented in January 2021.[128] The Joint Regulation is intended to allow

[128] This Joint Regulation was declared null by the Court of Appeals on March 31, 2021 and on April 12, 2021 in two different judgments. The Puerto Rico Planning Board has 30 days to appeal the decisions before the Supreme Court of Puerto Rico, so they are not final. The Puerto Rico Planning Board has said that they will appeal the decision and if necessary, will present their case before the Supreme Court of Puerto Rico. Until the decision becomes final, the Joint Regulation is considered as current.

for an expedited permitting process, one of the biggest hurdles to business operations, through a change of the single permit process. The single permit process, in effect since 2019, attempts to allow applicants to complete all documentation required in one process, as long as the permit filing is in compliance with all requirements, including zoning. The new process, per the 2021 Joint Regulation, allows all required inspections to occur after a business starts operations. With this specific change, single permit approval time has been reduced from an average of 52 days in 2020 to an average of 13 days in 2021. In addition, many constructions permits that once required an environmental assessment no longer require it if the project's environmental impact falls within certain minimal guidelines. This modification is expected to reduce permitting process timelines by at least six months and reduce business costs for those types of projects. Another important change in the regulation is that applicants can choose to renew their Single Permit in one or three years, reducing the time spent renewing permits.

Despite this near-term progress, the permitting process itself still needs to urgently be reformed, with the bulk of the work – process and system reengineering—still to be implemented over the next two to three years. Without these permanent changes, permitting backlogs will likely persist. Changes are required to create uniformity within the Island-wide permitting rules and estimated time to adjudicate permits, regardless of the office or the Municipality that is processing the permit.

Not only are the delays in construction permit issuance a deterrent to business creation and expansion, they also incentivize informal construction, which in turn potentially increases risks to public safety, as informal construction may not follow applicable building codes.[129] Without thorough implementation of the reforms outlined below, permitting will impede the Island's economic revitalization—discouraging construction and business operations, and undermining recipients who aim to rebuild their homes and businesses in the wake of natural disasters. In the aftermath of the COVID-19 pandemic, creating a streamlined permitting system that allows businesses to quickly start or restart activity will be crucial to support Puerto Rico's recovery—especially in the case of small businesses, which are particularly vulnerable to economic disruptions.[130]

9.2.1 Permitting reform design parameters

The 2022 Fiscal Plan recommends that the Government adhere to the corresponding set of parameters when implementing the required permitting reforms:

- **Improve efficiency while maintaining public safety.** The Government can implement this reform by eliminating sources of waste (e.g., under-trained employees asking applicants for excess documentation) through a lean transformation and routine regulatory training and testing for employees at key permitting agencies.[131] FEMA recently approved the use of funds from a Hazard Mitigation Grant, to hire the resources to perform the re-engineering of the permits' process. In addition, with the grant all permits' employees are participating in several seminars on the permit's process and regulation and construction code among others. The permits reform also requires that the issuance of all construction (PCOC) and business (PU) permits that comply with basic requirements on a conditional basis, with continued validity dependent on the findings of proactive (mid-construction or -operation) inspections.

[129] In 2007, Interviron Services, Inc. concluded that as much of 55% of the Puerto Rico's residential and commercial construction could have been done informally; see Hinojosa, et. al., "The Housing Crisis in Puerto Rico and the Impact of Hurricane Maria," 2018.

[130] For example, the average small business generally holds less than one month of cash on hand. JP Morgan Chase & Co Institute, "Cash is King: Flows, Balances, and Buffer Days: Evidence from 600,000 Small Businesses," 2016.

[131] These include the Permits Management Office (OGPe), the chief permitting regulator; the Environmental Quality Board (DNER-JCA), which exempts permits from environmental impact reviews and conducts the reviews themselves; and the Department of Health (DOH) and Firefighters Bureau (CB), which issue the sanitation licenses and fire prevention certificates required for businesses to operate.

[132,133,134] For the business permits all that comply with basic requirements and do not require a license or a change of use, are being granted immediately and inspections by the fire and health departments are performed after the permits is approved. The Government should also increase utilization (i.e., identifying additional inspection types to delegate) and oversight of third-party inspectors (e.g., more training and auditing), for which the Planning Board issue a new Audit Policy and is establishing dashboards to track audit results to take corrective action when necessary.[135,136] In addition, it is necessary that a streamline permitting process be established for strategic projects (e.g., major developments, projects above a certain value threshold), and guarantee highly delayed applications a right to obtain agency review by establishing an escalating process in the SBP.[137]

- **Accelerate construction permitting.** The Government can implement this reform by expanding the types of businesses and construction projects excluded from environmental impact review.[138] Department of Natural and Environmental Resources (DNER, by its Spanish acronym) amended their Administrative Order on Categorical Exclusions to increase the number of actions and activities exempted to perform an environmental assessment because they do not have significant impact on the environment, but there are still opportunities for further reductions.
- **Expedite business permitting.** The Government can implement this reform by eliminating sanitation and fire department inspections for some businesses, such as stores in shopping centers and offices in some commercial buildings that go through annual inspections and ending sanitation inspections for low-risk businesses (e.g., offices, retail outlets) altogether.[139] In addition, after completing reengineering of the permit's process, the permit's law and the joint regulation will need revisions to incorporate changes, simplify language, and eliminate procedural inefficiencies.
- **Improve municipal permitting offices' compliance with permitting regulations.** The Government can implement this reform by revising, standardizing, and renewing all legal agreements that allow autonomous municipalities to issue permits on their compliance with permitting regulations,[140] redirecting applications and fees away from non-compliant municipalities,[141] and allowing municipal permit applicants to document a municipal permitting office's regulatory non-compliance and petition OGPe to review their cases.

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132 The consolidated construction permit (PCOC) is required for all construction on the Island.

133 The single permit (PU) is required of all businesses on the Island to operate. It consolidates the use permit, the environmental quality certificate, the fire prevention certificate (adjudicated by CB), the sanitation license (adjudicated by DOH), and depending on the nature of the business, liquor, and tobacco licenses (adjudicated by Hacienda).

134 All permits are currently adjudicated through a time-intensive analysis to determine whether projects as written in the applications would comply with regulations. In a proactive inspection regime, regulatory compliance is ascertained through live inspections, enabling adjudicators to issue permits more quickly (reducing processing times), inspectors to verify code compliance in practice (boosting safety), and builders spot quality control issues earlier on (averting expensive rework).

135 Profesionales autorizados may complete fire prevention certificate inspections, but both OGPe and local permitting experts have voiced concern about the quality of some third-party inspections.

136 In Washington, D.C., third-party inspectors may conduct building, mechanical, electrical, and plumbing with supervision from the city's Commercial Inspections Division; see District of Columbia, "Third Party Program Procedure Manual 2018," 2018.

137 The Government could offer significantly delayed permit applications the ability to petition OGPe's Adjudication Board (OGPe-JA) for a final decision. In turn, the Government should bolster the board's technical capabilities by developing a permanent technical staff to review applications and require OGPe-JA to issue final rulings on their status by a certain deadline.

138 Before applying for permits, applicants must solicit an environmental document approval from OGPe. The categorical exclusion (DEC) is the most common and fastest to adjudicate (as no analyses are required). Applicants who do not qualify for a DEC must complete an environmental assessment (EA) or an environmental impact assessment (DIA).

139 An end to low-risk business sanitation inspections would reduce regulatory burdens for those businesses and enable DOH to allocate additional personnel to inspect high-risk facilities (e.g., labs, restaurants).

140 Act 81-1991 created autonomous municipalities. Under existing regulations, autonomous municipalities are legally allowed to open municipal permitting offices once they have submitted municipal zoning maps to and signed convenios de delegacion with JP. Convenios de delegacion are valid for five-year periods.

141 OGPe could redirect permitting applications and fees away from municipalities that display sustained patterns of non-compliance (via SBP) or (in conjunction with JP) digitally revoke their authority to issue permits altogether.

- **Allowing Government agencies to propose regulatory changes in response to economic or technological changes to maximize efficiency and safety.**[142]

9.2.2 Reform targets and indicators

Successful property registration reforms will allow Puerto Rico (last ranked 143rd in the previously published Doing Business Report "dealing with construction permits" indicator) to compete with the top-ranked Latin American and Caribbean (last ranked 87th) by reducing the time, number of procedures, and cost required to obtain permits by FY2023. It must digitize and integrate all procedures required to start a business into Single Business Portal (SBP) (Act 19-2017). On the last data submitted to the World Bank for the Doing Business Survey reflected some improvements in indicators from the previous surveys. However, because the results were not published, we do not have certainty that those improvements led to a better ranking.

The Government must continue to redesign the Island's permitting regime by implementing operational changes to ensure systemic and enduring changes.

- **Overhaul the Single Business Portal:** The platform needs solutions to glitches and additional features to meet the Island's permitting needs. It should also be redesigned to be customer-centric, process-driven, and to prevent errors in document submittal.[143] An operational redesign will enable agencies to comply with processing time limits to adjudicate permits. While modifications to SBP were made to reduce technical glitches (e.g., applications sent to incorrect offices) and a lack of critical features (e.g., amending applications) additional intelligence capabilities must be added to prevent errors, reduce time by directing applications through the process and permitting proponents to present complaints when process deviations occur. SBP upgrades will provide a foundation for the operational transformation. The Commonwealth should digitize and centralize all procedures to start a business as required by Act 19-2017 and facilitate inter-agency collaboration by offering all permitting agencies and municipal offices more visibility into outstanding tasks (e.g., inspections). The Hazard Mitigation Grant from FEMA provides the funding to perform an overhaul of the SBP, including all recommendations in this plan. The DDEC has among its priorities the overhaul of the system and has designated a team to work on this.
- **Revise all Island zoning to reduce land use consults or use variations:** The Planning Board needs to complete territorial planning for all municipalities, including updating existing plans to reduce location consultations (e.g., revising zones that have organically changed use but have not been recognized in the zoning maps). These problems are reflected in the lengthy and costly permitting process that needs to be followed for use variance and land use consults. The Hazard Mitigation Grant from FEMA provides funding to hire additional planners to help the Municipalities in developing and updating their Territorial Plans with no cost for the Municipalities. Municipalities have to prioritize this effort.
- **Revise the Environmental Document Regulation:** The DNER should revise their regulation to allow for more flexible delimitation of actions that are determined to be Categorical Exclusions, including for existing facilities, expansions, and any other that are known to not have a significant impact on the environment. This change will expedite the permit evaluation process for many cases, as it reduces time to approximately six months for environmental document approval for many projects. Even though this effort already started, further revisions should be done.

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[142] Modifications should respond to technological advances (e.g., development of new software that renders certain analyses obsolete). An effective mechanism in the Joint Regulation would require JP to (1) review all proposals and send viable ones to public commentary on a quarterly basis and (2) update the Joint Regulation within 90 days of their approval.

[143] SBP was created by Act 19-2017 to serve as the Island's one-stop portal for construction and business permits, individual and corporate incentives, and business registration procedures. To-date, the platform is only used to solicit and adjudicate permits and incentives. SBP has been played by technical issues (e.g., incorrectly computing application fees, sending applications to the wrong permitting office, etc.) and hampered by the absence of important features (e.g., amending applications, allowing permitting agencies to view all tasks awaiting completion, etc.).

- **Establish Performance goals for all agencies, municipalities, and offices that participate in the permitting process, and publish a dashboard with the general status and statistics for accountability in the permitting process:** OGPe created the public dashboard that will provide transparency on the permitting process and will help identify bottlenecks and inefficiencies among the agencies and offices involved. These Dashboards will be published in the DDEC website with access to all interested. The Dashboards must include data from all permitting offices including all autonomous municipalities permits offices.
- **Launch a Permitting Performance Dashboard (DPP)** to evaluate permitting agencies' and Municipal offices' compliance with processing time limits found in the Joint Regulation[144] by calculating the average processing time (submission to adjudication) for all permit classes and types (and agency sub-tasks if adjudicated by two or more agencies),[145,146] tracking the number of applications closed without adjudication or returned to applicants due to incomplete documentation for all permit classes and types,[147] recording the percentage of third-party permit inspections audited by the Planning Board, and enabling applicants to view their permit's approval status in real-time. The metrics and dashboards were developed but they have to be deployed to all offices that manage permits including agencies and municipal permits office.
- **Launch a Red Tape Commission** comprised of private and public sector experts to identify opportunities to streamline the environmental documents, such as the Determination of Categorical Exclusion (DEC) and the Environmental Assessment (EA), and major construction procedures like the Land Use Consult (CUB), the Consolidated Construction Permit (PCOC), the Infrastructure Agency Recommendation (SRI), and the single business permit (PU). [148] The commission should also map the objectives of all OGPe-issued permits to identify overlaps in scope, outdated use cases, permits that could be processed in parallel or leverage the same analyses, as well as recommend which permit inspections could be delegated to third-party inspectors and flag major SBP glitches and common-sense technical upgrades. This commission was appointed by the DDEC and meets twice a month to work on recommendations, assign responsibilities and track implementation of such recommendations.

The implementation of these reforms is critical to improve the permitting process. The Oversight Board recommends the Government—notably the Planning Board (JP, by its Spanish acronym) and the Permits Management Office (OGPe, by its Spanish acronym)—implement these reforms promptly to improve the permitting system.[149] The implementation of these reforms is necessary to achieve the economic growth assumed in the Fiscal Plan and to increase the tax revenues that come as a result of economic growth.

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[144] The Joint Regulation creates three permit classes: Ministerial permits comply with all land use, zoning, and building regulations and must be adjudicated within 30 days. Discretionary permits that contravene only building rules (e.g., square footage limits) are subject to a Construction Consultation (CC) but not subject to public commentary and must be adjudicated within 120 days. All other discretionary permits are subject to a public hearing and must be adjudicated within 180 days.

[145] Class refers to a permit's ministerial or discretionary character, type refers to its use (e.g., PCOC, PU, etc.).

[146] The SRI is one example of a permit adjudicated by more than one agency. Although it is issued by OGPe, the determination is based on input from the affected infrastructure agency (e.g., PREPA).

[147] The Joint Regulation resets time limits when agencies receive an application lacking required documentation. Local permitting experts have noted prior experiences with agencies marking completed applications "incomplete" to reset application time limits.

[148] In New York City, a red tape commission developed more than 60 solutions to address inefficient business processes, including permitting. In New Jersey, the creation of a statewide commission coincided with a slowdown in the issuing of new regulations. When enforceable by law, red tape reduction efforts have drastically reduced excess regulations. Rhode Island eliminated 31% of all statewide regulations when it legally set its entire regulatory code to expire at the end of 2018. See Broughel, "A Dark Day for Red Tape in the Buckeye State," 2019.

[149] For example, creating a more coherent land use plan and zoning map could streamline the permitting process by eliminating the need for time-intensive pre-construction consultations. Multi-year delays in updating this map have increased the need for such consultations as Island's developmental trajectory has necessitated commercial and industrial development in areas officially zoned for residential or agricultural uses. As such, the Oversight Board urges collaboration between JP and autonomous municipalities to produce an updated land use plan and zoning map that meets the Island's economic and environmental needs.

To successfully implement permits' reform, the Government must accomplish the following action items by their respective deadlines:

EXHIBIT 49: REQUIRED IMPLEMENTATION ACTIONS FOR PERMITTING REFORM

	Action item	Owner	Deadline
To be completed in FY2022	Establish Red Tape Commission Comprised of private sector experts, CB, DOH, DRNA-JCA, JP, OGPe, and the Oversight Board	DDEC	Completed
	Publish in SBP Permit's Performance Dashboard with metrics by office: OGPe, Municipalities, DoH, FD, and all Agencies that participate in permits process and by employees.	OGPe	Completed
	Establish and communicate performance goals for all permit office and Planning Board employees and incorporate in performance review process.	OGPe, PRPB	In Process
	Train all supervisors in supervisory skills, performance and change management.	OGPe, PRPB, UPR	Completed
	Develop and publish RFP to hire lean consultants to perform process reengineering with Code Enforcement Grant.	OGPe, PRPB/IBTS	In Process[1]
	Revise all Island zoning to reduce land use consults or use variations. Obtain from SBP list of repetitive location consultations to discuss with PRPB to identify areas to change zoning and include id field in SBP for field variations.	PRPB	In Process
	Develop new Strategic Project Definition, streamline approval process with metrics and dashboard and activate committee.	Governor's Advisor on Priority Projects	Delayed - August 30, 2021
	Establish and communicate an oversight procedure for PAs, OGPe and Municipal Offices' personnel that includes: % of cases to be audited, deficiencies reports and sanctions.	PRPB	Delayed[1] - September 30, 2021
	Create dashboard of PA's and employees (users) performance (audit scores and complaints) and deficiencies.	PRPB	Delayed - September 30, 2021
	Select and hire Lean Consultant.	OGPe, PRPB/IBTS	Delayed[1] - September 30, 2021
	Re-train all OGPe and Municipal Permit's Offices employees, technicians, inspectors on new regulation, SBP and code adoption (Grant) .	OGPe, PRPB/IBTS	Delayed[2] - October 31, 2021
	Revise the environmental document regulation.	DRNA	ON HOLD - October 31, 2021
	Under Code Adoption Grant develop RFP for System Architecture Provider with Customer Centric and Service Design Experience for SBP development.	OGPe, PRPB/IBTS	Delayed[1] - October 31, 2021
	Design implementation plan to digitalize all business registration process (to start a new business)	Business Registration Agencies	Delayed - December 31, 2021
	Select System engineer and start SBP system design	OGPe, PRPB/IBTS	Delayed[1] - December 31, 2021
	Amend laws to allow a streamlined process for the development of territorial plans.	Legislature	Delayed[1] - December 31, 2021
	Complete lean reengineering and communicate recommendations.	OGPe, PRPB/IBTS, Lean Consultant	Delayed[1] - January 31, 2022
To be completed in FY2022	Amend permit law and regulation (as necessary) to incorporate lean recommendations.	Legislature/Executive	March 31, 2022[1]
	Complete SBP System Design.	OGPe, PRPB/IBTS	March 31, 2022[1]
	Develop RFP for SBP System Developer to create SBP modifications.	OGPe, PRPB/IBTS	April 30, 2022[1]
	Select System developer and start SBP system programming	OGPe, PRPB/IBTS	June 30, 2022[1]
To be completed in FY2023	Amend Joint Permit Regulation to incorporate changes required by changes in the law and lean process.	PRPB	September 31, 2022[1]
	Complete SBP modifications.	OGPe, PRPB/IBTS	December 31, 2022[1]
	Complete territorial planning for municipalities and update existing plans.	PRPB	December 31, 2022
	Fully digitalize all procedures to start a business within SBP	Third Parties	June 30, 2023
	Reduce average processing times for each permit type and class to 2x Joint Regulation	OGPe, PRPB	June 30, 2023
	Reduce average processing times for each permit type and class to comply	OGPe, PRPB	June 30, 2023

1 Milestones are delayed due to project having been put on hold by COR3 and FEMA until clarifications were provided for project expenses covered by the Hazard Mitigation Grant
2 Milestone is delayed due to Joint Regulations being challenged in court

9.3 Overhaul property registration to facilitate financial transactions and promote disaster-preparedness

To remove barriers to financial activity and promote disaster-preparedness, the Government must continue implementing property registration reforms. The digitization of property registrations has boosted productivity at the Department of Justice-

Property Registry (DOJ-PR), enabling the registry to process more documents than it received[150] Since the certification of the 2020 Fiscal Plan, the Register has been able to reduce backlogs from 400,000 to 293,000 documents, registrations average less than 90 days to process compared to 190 days 2020, and new registrations (excluding backlog cases) average 15 days. This has been done by creating performance dashboards and establishing performance goals for all employees. However, even with these temporary changes, the backlog has not been eliminated, and without systemic and procedural changes the backlog could further increase, therefore procedural changes are necessary for long-term reform.

Accelerating property registration will ensure that all residents and businesses can quickly and reliably document property rights—crucial to day-to-day business operations and to post-disaster recovery efforts. As it stands, the Island's current set of disjointed registries does not comprehensively map all land ownership, complicating the Government's disaster relief efforts.[151,152,153] To empower residents and businesses to recover from future natural disasters and comply with U.S. Department of Housing and Urban Development (HUD) guidelines for unlocking $8.3 billion in Community Development Block Grant Mitigation (CDBG-MIT) funds, reforms should also demonstrate meaningful progress in the creation of a uniform parcel registry that can be used to verify the ownership of properties across the Island.

9.3.1 Reform design parameters

The 2022 Fiscal Plan continues to require the Government to implement the property registration reforms highlighted in bold, below. The 2022 Fiscal Plan recommends that the Government adhere to the corresponding set of parameters when implementing the required property registration reforms. Specifically, the Government must:

- **Reduce the amount of time required to register a property.** In the past year, productivity by employees increased once performance targets were established, and cases in sections that are up to date in backlog elimination are now being registered in 15 days. A Government internship program was also deployed with the UPR to hire students to assist with the registering process time. The Government can achieve this reform by completing consolidation of regional offices, train supervisors on continue to supervisory skills including performance management, provide continuous training to employees to increase productivity, conducting performance analyses to reallocate support staff (e.g., technicians) to maximize registrars' processing capabilities, and eliminating the backlog of outstanding property registrations.
- **Eliminate the backlog of outstanding property registrations.** In the April 2021 Fiscal Plan, it was recommended that the Government achieve this reform by promoting legislation such as what was done in 2010 with Act 216, known as the Act to Accelerate the Property Register. Act 340 has been introduced to the legislature and has the potential to help eliminate roadblocks for registration of the 200 thousand documents in backlog that have a tract and are in the correct estate. Most of these documents are missing minor corrections but due to the time lapsed from origination to present the notary or the proponent cannot be traced. The

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150 Puerto Rico Department of Justice-Property Registry, performance data shared with Oversight Board, 2019; the World Bank Group, Doing Business 2020, 2019.

151 In the aftermath of the 2017 hurricanes, many individuals and families affected by the disasters struggled to document legal ownership of their properties, requiring FEMA to make an exception and allow claimants to self-certify ownership,

152 Unregistered properties, also known as informal housing stock, are generally self-built by lower-income households, often in flood zones and without rigid building code compliance. In 2007, Interviron Services, Inc. concluded that as much of 55% of the Puerto Rico's residential and commercial construction could have been done informally.

153 Puerto Rico has three property registration systems: (1) DOJ-PR's registry records transactions (e.g. acquisitions) relating to real properties and uses registrars to analyze the validity of property transactions; (2) Centro de Recaudacion de Ingresos Municipales (CRIM) maintains a digital registry of real property in each municipality (the Cadaster of Puerto Rico) for tax, legal, economic, and administrative purposes; (3) JP maintains an interactive database with location, environmental, and land use data across the Island. Neither the DOJ-PR registry nor the Cadaster accurately capture property ownership. Registration in the former is voluntary, time-consuming, expensive, and unnecessary in the absence of financial transactions. While registration in the latter is mandatory, the Cadaster does automatically record informal transactions.

Oversight Board recommends the Registry deploy an implementation plan to register all backlog in two years.

- **Modify Karibe,** which is the digital platform used by the Register. As of today, efforts to modify Karibe are delayed, and the maintenance contract has not been renewed for FY2022. Focus groups with Registrars, Notaries and employees were performed to identify quick fixes to Karibe. In addition, a volunteer (pro-bono) consultant was identified by the Science Trust to develop an RFP for the development of Karibe with modern digital infrastructure solutions. The new system should reduce document notifications by implementing checklist and filters in case presentation to eliminate errors. It should also automate document review process using IT technologies such as OCR, AI and machine learning. The Oversight Board recommends that the Justice Department develop an RFP to hire system developer based on specifications established.
- **Create a taskforce composed of Public Notaries, and DOJ-PR to develop recommendations and set procedures and legal requirements to register non-registered property on the Island.** The current process to register properties that have never been registered requires that all transactions go through the judicial system. It is estimated that there are 90,000 informal properties in Puerto Rico that would have to go through that process, potentially creating a huge backlog in the judicial system. The taskforce already developed recommendations on simpler process for registration of informal properties outside of the judicial system. Such recommendations were presented to the PRDOH, which is evaluating them for implementation under the Title Clearance Program. The implementation of such recommendation will make more accessible and in a shorter time obtaining a property title for most owners.
- **Create a uniform parcel registry that comprehensively records property ownership and rights across the Island** (funded by a $50 million CDBG-DR grant for this purpose). The Government can achieve this reform by prioritizing the mapping of the entire Island, including only basic information for each property, and limiting participation to stakeholders with registration data, establishing an administrative and technical protocol for continuously updating the parcel registry to reflect legal changes (e.g., new ownership), and creating a legal protocol to incorporate informal housing stock lacking legally-determined boundaries, deeds, or titles into the uniform parcel registry. According to the Department of Housing CBDG-DR Office Action Plan (V), the GeoFrame Program will aggregate, integrate, and actualize all cadastral data (addresses, roads, parcels, structures, ownership, occupancy, land use, etc.) in Puerto Rico using a centralized regulated system. The program guidelines were approved in September 2020 and the program launched in October 2020 with a Request for Proposal (RFP) for a program manager.
- **Launch a geoportal that provides an interactive geospatial presentation of data populated within the uniform parcel registry** (funded by the same $50 million CDBG-DR grant mentioned above). The Government can achieve this reform by contracting surveyors and GIS service providers to develop a digital portal of the Island, and prioritizing the overlay of parcel and ID, ownership, land use, and valuation data[154] Over the past year, PRDOH contracted a service provider and started coordination meetings to align the provider with program requirements, establish expectations and produce an adapted working plan and deliverable schedule. The current term of the contract is for three years, which covers Stage 1 and Stage 2 of the GeoFrame Program. By the start of Stage 2 (January 2023), as per program design, there should be an interim system that can be accessed by a digital portal and that should iterate into the final portal through a production phase that extends into Stage 3 of the program. In FY2021, DH contracted a service provider and started coordination meetings to align the provider with program requirements, establish expectations and produce an adapted working plan and deliverable schedule. The current term of the contract is for three years, which covers Stage 1 and Stage 2 of the GeoFrame Program. By the start of Stage 2 (January

[154] After satisfying HUD requirements, the Government could populate additional data (e.g., utility, school population, crime) to meet the Island's legal and economic needs.

2023), as per program design, there should be an interim system that can be accessed by a digital portal and that should iterate into the final portal through a production phase that extends into Stage 3 of the program.

9.3.2 Reform targets and indicators

Successful property registration reforms will allow Puerto Rico (last ranked 161st in the previously published Doing Business Report "registering property" indicator) to compete with states focused on attracting manufacturing and other the top-ranked Latin American and Caribbean economy in this indicator (last ranked 95th) by reducing the time and number of procedures required to register property by FY2024. It will also allow Puerto Rico to demonstrate to the U.S. Department of Housing and Urban Development (HUD) how ongoing efforts to develop a uniform parcel registry and GIS map will assist HUD in verifying legal and physical addresses associated with the use of CDBG-MIT funds.

The Oversight Board will also track the following indicators to ensure that the Government implements property registration reforms:

- Average number of days to register property
- Number of procedures required to register property
- Number of backlogged property registration applications

To successfully implement property registration reform, the Government must accomplish the following action items by their respective deadlines:

EXHIBIT 50: REQUIRED IMPLEMENTATION ACTIONS FOR PROPERTY REGISTRATION REFORM

	Action item	Owner	Deadline
Timeframe FY2022	Establish a property registration reform working group comprised of CRIM, DOJ-PR, PRPB, Vivienda and FOMB	PRDOH	Completed
	Work with Legislature to pass law to register all documents in backlog up to 12/31/20 that have a tract record (missing a partial payment, a small correction or a Gov required document)	DoJ / PR / Legislature	Completed
	Develop regulation and plan for implementation of law	DoJ / PR	Completed
	Establish employee performance quotas, include in performance review process and publish weekly, monthly and YTD	DoJ / PR	Completed
	Create internal and external users' team as advisors (Civil Law Notaries) and government agencies with vested interest in the process: Property Registry, OGPE & CRIM	DoJ / PR / Working Groups	In process
	Begin implementing strategy to reduce property registration processing times	DoJ / PR	In process
	Publish dashboards with all employees, teams and Registry Sections performance, internally and in KARIBE	DoJ / PR / Working Groups	Delayed - August 31, 2021
	Develop RFP to Hire System Designer for KARIBE	DoJ / PR / PRITS	Completed
	Issue request for proposal for third-party surveyors and GIS providers to begin developing digital map of the Island (funded by $50 million CDBG-DR) grant for this purpose.	PRDOH	In process
	Hire System Designer (Front End KARIBE)	DoJ / PR / PRITS	Delayed - October 31, 2021
	Work legislation to implement fee for cases presented physically at Registry Offices.	DoJ / PR / Legislature	Delayed - November 30, 2021
	Identify all changes to be performed to KARIBE to improve presentation, increase user friendliness and automate certain tasks performed by technicians and prepare RFP for system developer.	DoJ / PR	Delayed - December 31, 2021
	Hire system developer and start changes to KARIBE.	DoJ / PR / PRITS	February 28, 2022

	Action item	Owner	Deadline
Timeframe FY2022	Establish compensation plan for technicians that exceed goals with new funds collected.	DoJ / PR	February 28, 2022
	Define administrative protocol to continuously update uniform parcel registry in response to legal changes (e.g. ownership changes).	Working Group	April 31, 2022
	Finalize merger of CRIM, DOJ-PR, and JP property registries into uniform parcel registry	Third Parties	May 30, 2022
	Introduce technical mechanisms to continuously update uniform parcel registry and GIS map in response to legal changes (e.g. ownership changes).	Third Parties	June 15, 2022
	Incorporate CRIM geographic area validation.	DoJ / PR	June 30, 2022
	Complete consolidation of 12 Regional Offices into 8 with limited services	DoJ / PR	June 30, 2022
FY2023	Complete all document registration as required with the new law.	DoJ / PR	July 31, 2022
	Complete changes in KARIBE.	DoJ / PR / Working Groups	September 31, 2022
	Issue request for proposal for third-party firm to merge CRIM, DOJ-PR, JP property registries into uniform parcel registry.	PRDOH	November 15, 2022
	Design protocol to incorporate informal housing stock when identified into uniform parcel registry.	PRDOH	January 31, 2023
	Design campaign to map unregistered properties or those with outdated ownership and share with Oversight Board.	PRDOH	February 15, 2023
FY2024 and beyond	Develop an expedited ownership declaration process. Create preregistration process to comply with Federal Government requirements to assure all properties in Puerto Rico have some type of evidence of ownership.	CDGB-DR / JP / CRIM / PRDOH	July 31, 2023
	Conclude mapping campaign.	DoJ / PR	March 31, 2024
	Finalize upload of data from mapping campaign into uniform parcel registry and GIS map.	Working Group	June 30, 2024
	Finalize uniform parcel registry that maps all ownership and rights across the island.	CDGB-DR / JP / CRIM / PRDOH	September 15, 2024
	Finalize GIS map that include parcels, property IDs, property ownership, land use, and property value data.	CDGB-DR / JP / CRIM / PRDOH	December 31, 2024

9.4 Simplify paying taxes to spur economic activity

To spur economic activity, the Government must implement reforms to meaningfully simplify the process of paying taxes. The Oversight Board acknowledges Hacienda's progress in digitizing and increasing the number of tax filings made via the Internal Revenue Unified System (SURI, by its Spanish acronym). During FY2020 and FY2021 Hacienda automated corporate income tax filing and the submittal of documents for audits and error correction. In addition, they established an appointment system on their webpage to eliminate the need for taxpayers to visit the taxpayer's services office and wait in line for post filing error resolution. Hacienda is also in the process of digitizing SUT payments in SURI. These efforts have drastically reduced the burden of tax filings and has helped filers reduce the time required to complete certain filings and payments (e.g., form 480, SUT, corporate income taxes) by digitizing and centralizing those processes in one place. However, municipal and property tax filings and payments remain time-consuming and complex. Post-filing audit procedures are still particularly time-consuming and challenging to resolve, often involving multiple in-person visits to Hacienda[155] or require filers to interface with multiple revenue agencies and mediums to comply with their tax obligation.

The Government should prioritize the reform of the tax administration process and should appoint a tax administration reform working group composed of public and private sector members including CPAs, CRIM, and the Municipalities.

9.4.1 Reform design parameters

The 2022 Fiscal Plan continues to require the Government to adhere to a set of parameters when implementing the required tax administration reforms. Specifically, the Government must:

[155] Most technicians only have the authority to resolve (and frequently escalate to their superiors) errors worth $25,000 or less, with taxpayers needing multiple follow-up visits to speak to higher-level officials.

- **Reduce the time required to pay taxes.** The Government can implement this reform by digitizing analog tax filings (e.g., municipal and property taxes), consolidating several tax filings (e.g., unemployment, workers' compensation, disability and driver's insurance), and improve post-filing error-resolution processes (e.g., by communicating to users the new capability for secure uploads for digital document) into SURI, as well as by exploring opportunities to reduce the number of required tax payments (e.g., less frequent payments for smaller amounts). To date, Hacienda has incorporated corporate tax filing through SURI, implemented a new capability for secure uploads for digital document into SURI, and established a new taskforce to work on tax reform – including tax administration. Recommendations from the Task Force have not yet been issued.
- **Accelerate the processing of tax filings and timeliness of audit completion.** The Government can implement this reform by conducting an operational needs assessment to support the reallocation of underutilized personnel to critical functions (e.g., error-resolution, audits), and identifying and implementing operational efficiencies within the audit process (e.g., by identifying bottlenecks, duplicative work, and workload scheduling).
- **Create a working group to identify and prioritize efficiency-minded regulatory changes that can be incorporated into future SURI releases and to develop a plan to reform the tax administration process.**

9.4.2 Reform targets and indicators

Successful tax administration reforms will allow Puerto Rico (last ranked 163rd in the previously published Doing Business Report "paying taxes" indicator) to compete with the top-ranked Latin American and Caribbean economies in this indicator (last ranked 99th) by reducing the time and number of filings that companies must complete to pay taxes by FY2023:

The Oversight Board will also track the following indicators to ensure that the Government implements tax administration reforms:

- Average number of mandatory tax payments for corporations
- Number of days for claims resolution

To successfully implement the required tax administration reform, the Government should accomplish the following action items by their respective deadlines:

EXHIBIT 51: REQUIRED IMPLEMENTATION ACTIONS FOR TAX ADMINISTRATION REFORM

	Action item	Owner	Deadline
To be completed in FY2022	Establish a Tax Administration reform working group with Private Sector tax professionals, CRIM, Hacienda, Governor's Priority Projects Advisor and FOMB	Hacienda/AFFAF	Delayed - July 31, 2021
	Start implementation of Municipal Sale Tax Payments in SURI (COFIM)	Hacienda/AFFAF	Delayed - July 31
	Discuss tax reform strategy, projected costs, and necessary administrative and legislative changes with Oversight Board.	Reform Team	Delayed - July 31, 2021
	Assess basic operational needs across all departments to facilitate allocation of personnel to processing filings, error resolution and audits.	Hacienda	Delayed - October 31, 2021
	Train personnel to be relocated to processing filings, error resolution and audits.	Hacienda	Delayed - December 31, 2021
	Design an implementation plan to maximize the effectiveness of tax administration reforms	Reform Team	Delayed - December 31, 2021
	Reallocate trained personnel to ease the processing filing, error resolution and audits.	Hacienda	January 31, 2022
	Start implementation of the Tax Credit Management Module ("Business Credit Manager")	Hacienda/AFFAF	January 31, 2022
	Finalize update to the latest version of SURI platform (Version 12) to improve user experience with a communication program for users	Hacienda	February 28, 2022
	Finalize update to SURI platform to include Municipal Sale Tax Payments (COFIM)	Hacienda	June 30, 2022
To be completed in FY2023 and beyond	Finalize the Tax Credit Management Module ("Business Credit Manager")	Hacienda	September 31, 2022
	Finalize necessary administrative and legislative changes required to implement tax administration reforms for tax year 2022	Hacienda / Legislature	December 31, 2022
	Finalize technical upgrades to Hacienda's digital platforms for reform implementation	Hacienda	March 31, 2023

9.5 Reduce occupational licensing to facilitate labor force participation

Current occupational licensing requirements complicate certain workers' entry into the formal workforce and expose applicants to lengthy wait times and potential costs. Occupational licensing is meant to ensure high quality services while protecting public safety. However, overregulation in this area creates a strong disincentive for certain workers to move into the formal labor force.[156] To promote labor force participation and create incentives for skilled workers to remain on-Island, the Government should, as appropriate, streamline, eliminate, or harmonize occupational licensing requirements with those on the U.S. mainland. By aligning licensing requirements with other jurisdictions, professionals could consider Puerto Rico as an attractive relocation destination. Additionally, the Government should leverage established best practices when creating new licenses to produce less burdensome regulations and reduce the need for future time-intensive legislative overhauls.

The Government has not enacted any professional licensing reforms to date. More than 140 professions[157] are licensed by autonomous boards and supervised mainly by the Department of Health (DOH), the Department of State (DOS), the Puerto Rico Tourism Company (PRTC), the Sports and Recreation Department (DRD, by its Spanish acronym), and eleven other agencies. Workers must meet application requirements set by licensing boards. Applications are then processed by their respective boards and issued by DOH, DOS, PRTC, and DRD. Processing times vary substantially.[158]

[156] The White House, "Occupational Licensing: A Framework for Policymakers," 2015; Carpenter, et. al., "License to Work: A National Study of Burdens from Occupational Licensing," 2017

[157] Inventory performed by the Dept of State and AAFAF

[158] In 2019, applicants for designer licenses waited approximately 33 business days to receive their license (18 days at the board and 15 at DOS), while barbers waited nearly 160 days (117 days at the board and 40 at DOS). Puerto Rico Department of State, performance data shared with Oversight Board, 2019

9.5.1 Reform design parameters

The 2022 Fiscal Plan continues to recommend that the Government adhere to a set of parameters when implementing occupational licensing reforms.

Over the last year, a team composed of three UPR professors and a group of students performed research to identify all the occupational licenses and compare their requirements and processes in Puerto Rico to those in other the states. The research team joined efforts with the Institute of Justice, and the Knee Center for Occupational Regulation to help with the comparison of the licenses. To date, the team has identified 141 total occupational licenses in Puerto Rico and three reports have been delivered: (1) "Burden Characteristics of All Inventory Licenses in Puerto Rico", (2) "Review of the Occupational Licenses Management Systems for a Set of Jurisdictions in the US", and (3) "Review of PR Occupations Under the Scope of US Institute of Justice LTW National Study of Burdens From Occupational Licensing".

The Government should continue to review requirements to identify licenses for simplification, consolidation, or elimination, and assess the basis for legislating a mandated reduction in occupational licensing regulations, as is done in other U.S. jurisdictions.[159] The Government should join U.S. mainland compacts that recognize licenses obtained in other states, such as the Compact for the Temporary Licensure of Professionals. The Government should also amend current licensing requirements to align them with those in mainland states that are home to significant Puerto Rican populations that might one day return to the Island (e.g., Florida, New Jersey, New York, Pennsylvania) or employ significant numbers of workers in industries that Puerto Rico aims to attract (e.g., knowledge services, hospitality, and tourism) to facilitate relocations.

Additionally, the Government should create less burdensome occupational licenses in the future by employing less-restrictive alternatives for occupations that pose low risks to public safety, closely tailoring license requirements to mitigate specific health and safety risks, conducting regular cost-benefit analyses, and reducing barriers to inter-state mobility through the enactment of legislation.[160]

9.5.2 Reform indicators

The Oversight Board will track the following indicators to ensure that the Government implements occupational licensing reforms:

- Average number of days to obtain an occupational license after application is complete
- Average number of days to renew a license
- Number of occupational licenses eliminated or harmonized with interstate compacts

To successfully implement occupational licensing reform, the Government should accomplish the following action items by their respective deadlines:

159 Virginia, for example, created an inventory of all statewide regulations and mandated a 25% reduction in occupational licensing rules; see Broughel, "A Dark Day for Red Tape in the Buckeye State," 2019

160 These include certification, registration, mandatory bonding, or more direct regulation of companies; with certifications, for example, the Government would limit the use of professional titles to licensed workers but allow workers to practice a trade. See The White House, "Occupational Licensing: A Framework for Policymakers," 2015

EXHIBIT 52: REQUIRED IMPLEMENTATION ACTIONS FOR OCCUPATIONAL LICENSING REFORM

	Action item	Owner	Deadline
To be completed in FY2022	Establish working group of DOH, DOS, PRTC, FOMB and any related agency with Occupational Licenses	DOH, DOS, PRTC	Completed
	Identify all occupational licenses, requirements and processes using Institute of Justice License to Work methodology and compare to licenses in the U.S.	DOS, DOH, PRTC, DRD and UPR	In process
	Establish a plan to reduce excessive licenses requirements and identify which licenses could be converted to less restrictive options like certification, bonding, insurance, inspections and registration	DOS, DOH, PRTC, DRD and UPR	Delayed - October 31, 2021
	Design reform to reduce licensing by (1) creating protocol to streamline licenses, (2) joining inter-state licensing compacts, and (3) aligning licensing rules with those in states with large Puerto Rican communities (NY, NJ, FL, TX)	DOS, DOH, PRTC, DRD and UPR	Delayed - October 31, 2021
	Identify viable strategies to promote local boards compliance with licensing reforms	DOS, DOH, PRTC, DRD and UPR	Delayed - November 30, 2021
	Publish performance report detailing (1) the average time and costs required to obtain each license type and (2) administrative or legislative changes made to reduce licenses or accelerate their processing	DOS	Delayed - December 31, 2021
	Design Strategy to accelerate processing of licenses within DOH, DOS, PRTC, DRD (consolidating under one department)	DOS, DOH, PRTC, DRD	February 28, 2022
	Discuss licensing reform, compliance strategy, processing improvements, projected costs, and necessary administrative and legislative changes with Oversight Board	DOS, DOH, PRTC, DRD	February 28, 2022
	Finalize necessary administrative and legislative changes required to implement occupational licensing reforms from FY2022 onward	DOS / Legislature	June 30, 2022
To be completed in FY2023	Implement revised occupational licensing requirements	DOS	June 30, 2023

9.6 Deregulate on-Island freight

Puerto Rico is one of only two major U.S. jurisdictions that still regulates land freight prices. The cargo industry has sufficient providers to be able to compete on prices. Regulated freights in other jurisdictions in the past have reportedly decreased the quality of services rendered by carriers and shippers, and forced companies to hold additional inventory, all of which have helped increase the cost of doing business in Puerto Rico.[161] Rates in Puerto Rico are also at least double that of market rates in most states. Higher transportation costs negatively impact businesses and lead to more expensive consumer goods relative to the mainland.

Deregulation efforts undertaken in the late 1970s and early 1980s by the Carter Administration created a more competitive market environment for the U.S. motor carrier industry.[162] Building on this momentum, the Motor Carrier Act of 1980 (Act) further liberalized interstate trucking by allowing easier entry of trucking firms, relaxing pricing controls, and eliminating restrictions on routes and the products that could be carried over them.[163] Federal deregulation of interstate trucking culminated in 1995 with the passage of the ICC Termination Act, which abolished the Interstate Commerce Commission. Regulation of motor carriers (trucking companies and interstate bus lines) became from that point onward the responsibility of the Federal Motor Carrier Safety Administration (FMCSA), whose primary mission is to prevent motor vehicle-related fatalities and injuries. All states followed the Federal lead and by mid-1990's also eliminated nearly all price regulations, with continuing regulatory efforts focused predominantly on safety. As a result, since 1995 interstate trucking essentially is no longer subject to price or entry regulations.

161 Advantage Business Consulting, "Progress Report on Deregulation of Land Freight Rates," 2016

162 Rastatter, Edward H. May, "Trucking Deregulation," 2019

163 McMullen, B. Starr, "The Impact of Regulatory Reform on U.S. Motor Costs. A Preliminary Examination," 1987

Federal and state deregulation of interstate (and intrastate) trucking has produced significant efficiency gains and general gains in economic welfare by lowering trucking rates,[164] improving services especially to small communities and remote areas,[165] less restrictive entry of workers into the industry,[166] increasing number of licensed carriers,[167] increasing intermodal carriage,[168] increasing savings due to the substantial drop in the cost of holding inventories,[169] and increasing demand for brokering services due to the influx of small trucking firms into the motor carrier industry.[170]

Similar to the impact of federal deregulation, the deregulation of land freights in Puerto Rico would likely reduce transportation costs for the Puerto Rican business community and ultimately, for consumers. Deregulation of land freight rates in Puerto Rico may potentially lead to trucking prices closer to those of the mainland. Moreover, it will increase flexibility of industry participants to negotiate directly and set prices, often with contract requirements that are more sophisticated and complex (for example, including provisions such as advertising incentives). It would also lead to a reduction in consumer prices.

In Puerto Rico the Transportation and Public Services Bureau (NTSP, by its Spanish acronym), is the agency that regulates public and private transportation. On December 23, 2020, the NTSP issued Circular letter 2020-35 temporarily increasing the minimum inland transportation freights by 35%, without identifying the impact on the economy. While the Circular letter has been enjoined by the local Court of Appeals[171], the decision to enforce the increase in rates appears to have coincided with a new interpretation of Act 75-2017 that expanded NTSP's regulations across new segments of the economy, including manufacturing and retail. In effect, this new interpretation of the law expanded regulation rather than deregulating as required by the Fiscal Plan. Retailers and manufacturers have historically established private contracts with carriers to transport merchandise to the point of sale, that were not under the purview of NTSP's rate setting. The pricing in these contracts has been negotiated often based on volume rather than distance, and often include other financial incentives, such as parking reimbursement, payment for advertising the company logo and public responsibility insurance, among others. The expansion of business segments covered by the regulation will directly impact consumer goods prices for all people in Puerto Rico. The tariff rate in Puerto Rico, if widely applied and enforced, would result in an estimated per mile trucking rate equal to between $5.55 and $7.51 per mile based on the rate schedule contained in the recently nullified Circular 2020-35. This compares to an average per mile cost of $2.74 for the U.S. mainland.[172] The regulated rates in Puerto Rico are significantly higher (more than double) than in most regions of the U.S. If Puerto Rico were to deregulate pricing within the trucking industry, it is expected that per mile rates would decline to a level more consistent with other U.S. regions. Furthermore, NTSP would be better equipped to focus on compliance with environmental and safety regulations in the absence of tariff regulation.

The 2022 Fiscal Plan continues to recommend that the Government retract the extension of the tariff setting function of the NTSP to private contracts. The NTSP should maintain regulatory responsibilities over the previously covered segments of the economy that hauled cargo in spot

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164 The average interstate truck load rates (TL)fell nearly 25% between 1977 and 1982 and the average less-than-truck load rates (LTL) fell nearly by 12%. See for example Owen, Diane. S., "Deregulation in the Trucking Industry," 1988

165 Trucking Deregulation in the United States. September 2007. Submission by the United States to the Ibero-American Competition Forum

166 Moore, Thomas Gale. Trucking Deregulation. The Concise Encyclopedia of Economics. Library of Economics and Liberty. https://www.econlib.org/library/Encl/TruckingDeregulation.html. Accessed July 22, 2020

167 Ibid.

168 Ibid.

169 Ibid.

170 Crum, M.R. Summer 1985. "The Expanded Role of Motor Freight Brokers in the Wake of Regulatory Reforms." Transportation Journal, pp. 5-15

171 Cámara de Comercio de Puerto Rico v. Negociado de Transporte y Otros Servicios Públicos, KLRA202100025 (April 12, 2021)

172 This estimate assumes an average trip of 55 miles which is half the distance from the two furthest land transport points in Puerto Rico (San Juan to Mayaguez)

transactions, without including private contracts. Based on the business model of the consumer goods distributors and their constant use of carriers, the tariff structure is not practical, and it will disrupt their distribution models. The actual contracting model is a good example of how a free market operates and has proven to be successful. The NTSP should consider deregulating all the tariffs to carriers after performing an in-depth analysis of the benefits and the costs associated with enforcing such tariffs. In addition, when increasing rates for covered segments, NTSP should ensure more inclusive procedures are instituted to prevent sudden unannounced changes, and that any proposed changes are supported by empirical data and analysis. This evidence should take into account impacts on industries and the economy as a whole. Finally, any new regulations should ensure they do not create undue barriers to entry for new market participants in the trucking industry. The Oversight Board is aware that the NTSP is currently working on quantifying the impact of tariffs on the economy but has not yet issued a report. Currently, the Oversight Board is undergoing an analysis, including stakeholder meetings, to determine the nature and timing of next steps that will best serve the economy. It is crucial that any regulations should not create undue financial barriers to entry for new market participants in the trucking industry.

In addition, the NTSP should review the complete regulations to eliminate duplicate permitting processes between OGPe and the NTSP and to eliminate unnecessary documentation and processes required of carriers that add costs and are extremely time consuming.

9.6.1 Reform design parameters

The NTSP is going through the regulatory process to update the regulations required under Law 38-2017, the Uniform Administrative Proceedings Act, which includes notifying the public of the regulations to be approved, provide opportunity for resident participation, including public hearings when necessary or mandatory, submit the regulations to the Department of State for the corresponding approval. The NTSP must also submit the proposed regulation to the Oversight Board per PROMESA Section 204(b)(4). The Oversight Board recommends to the NTSP that it enhance the review process by including with its proposed regulation a study by a credible and independent economist built on a sound empirical foundation of the market for trucking services in Puerto Rico, including such details as shipping rates actually paid, trucking firm sizes, the number of trucking firms, and the number of firms using trucking services. Following the Oversight Board's recommendation, the NTSP has commissioned a study to evaluate trucking rates. The Oversight Board further recommends that the study should also include a simulation on the economic impact on any tariff increase on consumer prices, economic growth and tax collections. Moreover, the regulations should be reviewed to ensure they do not place oversized burdens on the trucking industry. It is critical that NTSP shares its evaluation methodology with stakeholders to ensure transparency in the process.

The regulations should also address reducing barriers to entry into the trucking sector, ensuring environmental and public safety without onerous requirements for trucking services providers.

To successfully implement deregulation of on-Island freights, the Government should accomplish the following action items by their respective deadlines:

EXHIBIT 53: REQUIRED IMPLEMENTATION ACTIONS FOR ON-ISLAND FREIGHTS REFORM

	Action item	Owner	Deadline
To be completed in FY2022	▪ Revert tariff application to companies with negotiated contracts with carriers	▪ NTSP	▪ Delayed - April 30, 2021
	▪ Revise regulation to eliminate duplicate permitting processes, excessive requirements and documentation to carriers and clarify that contracts between carriers and companies are exempt from tariff requirements.	▪ NTSP	▪ Delayed - December 31, 2021

9.7 Strengthen offshore investment attraction efforts

To transform Puerto Rico into a more competitive destination for offshore investment, the DDEC should work together with Invest Puerto Rico (IPR), the Island's Investment Promotion Agency (IPA), in developing an economic development plan and providing them the tools and the resources to execute the strategies that would bring new investment, jobs and opportunities for local businesses to grow.

Ending FY2021, Invest Puerto Rico exceeded targets in awareness, sales and outcomes, except for quantity of jobs committed. There were 11.2 million advertising impressions (334% above target), 81,900 website visits (111% above target), and 955 million earned media impressions (980% over target). From a sales standpoint, IPR generated 4,700 leads (118% above target), 2,000 prospect opportunities (158% above target), and 1,914 incentive applications submitted (174% above target). This translated to the following outcomes: 555 new businesses, 4,988 jobs committed (representing 64% of target) with an average salary of $66K, and $270 million in capital investment (107% above target).

Attracting job-creating investments is crucial to Puerto Rico, as the number of business establishments in Puerto Rico was already in decline before the 2017 hurricanes.[173] Jurisdictions across the globe have leveraged IPAs to attract offshore investments, fuel economic growth, and create jobs for their residents.[174] Effective investment promotion efforts are especially important in the aftermath of the COVID-19 pandemic. Off-Island investments (from both U.S. mainland and international companies) and from companies that establish transshipment centers in Puerto Rico to benefit from the air cargo and passenger transfer hub waiver granted by the U.S. Department of Transportation, will play a crucial role in supporting economic growth and creating jobs necessary to help Puerto Rico economically recover from the COVID-19 pandemic. To achieve this, IPR partnered with the Pharmaceutical Industry Association (PIA) on an extensive analysis of the Island's competitiveness with regards to other similar jurisdictions in the U.S. and abroad to be able to target manufacturing companies considering shifting their supply chains to the U.S.

In addition, Invest Puerto Rico is leading a multi-sectoral Air Transshipment Committee that has developed a comprehensive strategic plan and is actively working towards implementing initiatives to support the global logistics industry with the enactment of the U.S. DOT transshipment waiver, granted to Puerto Rico in April 2020. This collaboration, in addition to establishing new air cargo carriers on the Island, should increase direct routes, and stimulate new markets through Life Sciences company attraction, and expanding usage of the Foreign-Trade Zone (FTZ) status of the Island.

Stronger investment promotion will also help ensure that the Island can effectively compete with mainland states and other countries for critical investments aligned to the Island's competitive advantages (e.g., life sciences research and manufacturing, knowledge services, and hospitality and tourism) – increasingly important as companies look to shift their supply chains in the aftermath of the COVID-19 pandemic.[175]

9.7.1 IPR in comparison to other IPAs

Unlike other IPAs, Invest Puerto Rico only has one mandate: attract offshore investment (primarily from the mainland) to the Island. For this purpose, IPR has an annual budget of $5

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173 Puerto Rico Department of Labor and Human Resources, Bureau of Labor Statistics, "Puerto Rico Economic Analysis Report: 2015-2016," 2016

174 In Ireland, for example, the Industrial Development Authority (IDA) has helped secure investments from many of the world's top pharmaceutical firms and software companies, and more than 210,000 Irish residents—nearly 10% of the country's workforce—are employed by IDA client companies. See IDA Ireland, "Local impact"; the World Bank Group via International Labor Organization, "Labor force, total – Ireland," 2019

175 Rapoza, "New Data Show U.S. Companies are Definitely Leaving China," 2020

million, $1.4 million of which is allocated to investment promotion.[176] However, according to an analysis by the OECD of IPAs in its member states, national IPAs commonly have about six mandates, including inward foreign investment promotion, export promotion, innovation promotion, regional development promotion, and granting financial incentives.[177] Sub-national IPAs (such as IPR) often have many of these same responsibilities, as well as domestic investment promotion, issuing relevant business permits, and operation of a business one-stop shop. To support IPR's promotional campaign as part of the broader effort to help the Island recover from recent natural disasters, Vivienda has allocated $7 million in CDBG-DR funding to IPR to be used in FY2021. However, for future years DDEC should consider providing an increased budget to IPR tied to their ability to raise incremental new investment.

9.7.2 Reform design parameters

The 2022 Fiscal Plan recommends the Government adhere to a set of parameters to fully empower IPR to effectively attract growth-generating and job-creating investments to the Island. Specifically, the Government should:

- **Requiring that IPR continues to publicly release performance data** clearly illustrating the effectiveness of its promotional campaign in bringing incremental investments to Puerto Rico.
- **Ensure that IPR implements the strategic plan it developed to compete with U.S. mainland states and other economies for investments** that arise as companies move to shift their supply chains to the U.S. to minimize risk.
- **Partner with DDEC and DPR to implement the integrated strategic plan developed to leverage the U.S. Department of Transportation (DOT) air hub waiver** authorizing international air cargo and passenger transfers in Puerto Rico's international airports to foster economic development and spur tourism (if effectively utilized, the waiver is expected to generate $30 million in additional payroll by 2022).[178] The waiver authorizes international air carriers to transfer cargo and passengers from any of their aircrafts to any of their other aircrafts restricted in many U.S. Airports. The activities allowed by the waiver within Puerto Rico international airports are: to transfer cargo and passengers from any of their aircrafts to any other aircraft provided that the aircraft are operating to/from a point in the carrier's homeland; make changes in the type of number of aircrafts used to transfer cargo and passengers, provided that in the outbound direction, the transportation beyond Puerto Rico is a continuation of the transportation from the carrier's homeland to Puerto Rico, and in the inbound direction, the transportation to the carrier's homeland is a continuation of the transportation from behind Puerto Rico. It also allows the commingling of cargo and passenger traffic moving in foreign air transportation with cargo and passenger traffic not moving in foreign air transportation. They should also work together with DDEC to renew the waiver in 2022.[179]
- **Continue its efforts to attract companies in the eight targeted industries:** Energy, Creative Industries, Innovation & Entrepreneurship, Finance & Insurance, Professional Services, Technology, Air Cargo and Lifesciences.

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176 For comparison, JobsOhio has an annual budget of $134 million, Invest Atlanta of $40 million, and Enterprise Florida of $37 million. The average national IPA, meanwhile, as a budget of $68 million ($12 million of which is allocated to investment promotion) and the median national IPA a budget of $12 million (with $5 million allocated to investment promotion). See Organization for Economic Cooperation and Development, "Mapping of Investment Promotion Agencies in OECD Countries," 2018

177 These include inward foreign investment promotion (100% of IPAs), export promotion (56%), innovation promotion (56%), promotion of regional development (50%), green investment promotion (44%), domestic investment promotion (41%), granting financial incentives (31%), outward investment promotion (28%), trade facilitation (25%), and screening and approving investors (25%); see Organization for Economic Cooperation and Development, "Mapping of Investment Promotion Agencies in OECD Countries," 2018

178 Issued in February 2020, the waiver is expected to allow at least 10 new flights per day, creating 900 new jobs and increasing payroll by about $30 million (according to a study by Estudios Tecnicos, Inc.)

179 With Federal approval, the waiver can be renewed every two years

- **DDEC should provide IPR with the tools and capabilities to offer existing idle Government properties** (e.g., abandoned industrial parks, factories, storage facilities) that could be used by potential investors as they explore the possibility of running their businesses on the Island. The Oversight Board encourages close coordination between the DDEC and IPR to allow IPR to present to investors a more compelling offer, as finding the right location to run operations in a new area is time-consuming and challenging. It could also provide IPR with a new source of revenue (e.g., through brokerage fees on each transaction) and help the Government leverage their unused properties.

9.7.3 Reform targets

The 10-year collaboration agreement between DDEC and IPR establishes a set of multi-year performance targets. Despite the disruptions caused by the pandemic, the growing number of firms considering shifting their supply chains to the U.S. to minimize risk in the aftermath of the pandemic—if well targeted—will ensure that IPR can meet or exceed its contractual obligations. As such, IPR should generate, according to their collaboration agreement, by the end of FY2023, at least:

- 667 new businesses
- 6,000 new jobs
- $320 million in capital investments
- $45,000 in average payroll committed by each new business

To successfully implement investment attraction reform, the Government should accomplish the following action items by their respective deadlines:

EXHIBIT 54: REQUIRED IMPLEMENTATION ACTIONS FOR EFFECTIVE OFFSHORE INVESTMENT ATTRACTION

	Required implementation actions	Owner	Deadline
To be completed in FY2021	Identify KPIs that IPR will report to AAFAF on a monthly basis	IPR, AAFAF	Completed
	Develop clear list of target sectors and companies that IPR will target as it works to take advantage of efforts to rebalance supply chains toward the U.S. and capitalize on the DOT air hub waiver and discuss with Oversight Board	IPR	Completed
	Establish Airhub working group comprised of DDEC, DoT, DPR, Ports Authority, Land Administration, Private Sector and the FOMB to design and implement economic development strategy that leverage the newly issued Air Transit Waiver	DDEC	Completed
	Send KPI report to AAFAF	IPR	Completed
	Update 2019-2020 promotional plan to clearly detail strategy to capture investment from companies rebalancing their global supply change and those that can benefit form the Air Transfer Hub Waiver	IPR	Completed
	Publish annual performance report	IPR	Completed
	Design economic development strategy and share with Oversight Board	Working group	Completed
	Discuss economic development strategy and projected costs with Oversight Board	Working Group	Completed
	Publish promotional plan for upcoming calendar year	IPR	Completed

	Required implementation actions	Owner	Deadline
To be completed in FY2022	Develop a value proposition on Puerto Rico's supply chain value for Biden Administration	IPR/DDEC	Completed
	Connect the local Innovation & Entrepreneurship ecosystem to global capital	IPR / Working Groups	Completed
	Coordinate with PRIDCO to continuously receive updated list of government properties	IPR/PRIDCO	In process
	Have 20+ new qualified properties listed on State book	IPR	In process
	Support 5G Zone Center of Excellence by completing marketing material and webpage	IPR	In process
	Conduct familiarization tour with select group of investors and C-suite executives	IPR	In Process
	Conduct business mission in targeted geographies in coordination with strategic partners	IPR / Working Groups	March 31, 2022
	Implement strategy to attract targeted industries beside manufacturing (technology, professional services, finance and insurance, etc.)	IPR / Working Groups	June 30, 2022
	Develop and execute an outreach program to identify and target prospective transshipment companies	IPR	June 30, 2022
	Develop customized business cases to pitch to companies	IPR	June 30, 2022
	Implementation of strategy to attract manufacturing reshoring to the U.S.	IPR	June 30, 2022
	Develop and execute an outreach program to target companies, including event activations, campaigns and other business development tactics	IPR / Working Groups	June 30, 2022
	Conduct familiarization tour with select group of site selectors and corporate real estate	IPR / Working Groups	June 30, 2022
	Support DDEC and work with key industry stakeholders to help strengthen sector	IPR / DDEC	June 30, 2022
	Have a comprehensive list of real estate assets that IPR can market on web page that represents opportunities across sectors, sizes, and geographies	IPR	June 30, 2022
	Perform market valuation of inventoried properties to update value	IPR	In Process

9.8 Prime tourism attraction efforts for success

To continue Puerto Rico's transformation into a leading Caribbean tourism destination, the Government should expand the mandate and resourcing of Discover Puerto Rico (DPR), the Island's Destination Marketing Organization (DMO). Despite its natural beauty and rich culture, Puerto Rico underperformed as a tourism destination even before the 2017 hurricanes. For example, the Island was ranked 55th in the 2015 *Travel and Tourism Competitiveness Report*—an independent assessment of the strength of the tourism sector in 141 economies conducted by the World Economic Forum.[180] Destinations across the globe have leveraged DMOs to attract visitors, generate economic activity, and create jobs.[181] In Puerto Rico's case, DPR became fully operational in early 2019, when it launched its first promotional campaign and played an important role in driving record tourism performance in 2019. Effective management of on- and off-Island tourism marketing efforts will remain especially critical in the aftermath of the COVID-19 pandemic, which effectively crippled global tourism and the Island's industry and associated sectors (e.g., cruises). The leisure and hospitality industry was one of the hardest hit sectors in Puerto Rico, with 43% of employment lost in April 2020 (approximately 35,000 jobs)."[182]

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180 The mainland, for comparison, was ranked 6th that same year. See World Economic Forum, Travel and Tourism Competitiveness Index 2015, 2015. Puerto Rico has not been participating in this Index after 2015, therefore there are no recent numbers

181 For example, the Barbadian Tourism Product Authority (TPA), created in 2014, helped increase the travel and tourism sector's direct contribution to Barbados' GDP (5.4% contribution in 2015, 10.3% contribution in 2016) and employment (4.3% contribution in 2015, 9.8% contribution in 2016). The creation of a DMO in New Orleans, LA was linked to higher business activity in other nearby cities as higher tourism demand for flights to New Orleans facilitated economic development in surrounding areas. And, in Chicago, the creation of a DMO helped raise the city's business exposure, resulting in a partnership between the city's DMO and its World Business Chicago (WBC), the city's economic development agency, to promote the city as both a tourist and business destination. As a result, 70% of WBC marketing is conducted via Chicago's DMO; see Oxford Economics, "Destination Promotion: An Engine of Economic Development," 2014

182 U.S. Bureau of Labor Statistics

COVID-19 has had an enormous impact on global tourism and the Island's tourism sectors. As Puerto Rico looks forward, the Oversight Board is encouraged that, according to third-party travel data, Puerto Rico had been moving the needle of growth in this sector pre-COVID-19 and that it is starting to recover from the pandemic. The tourism sector's contributions to the economy and Island-wide employment surpassed historic trends in 2019,[183] air arrivals and lodging demand reached record levels in 2019,[184] and DPR's media campaign is credited with spurring higher spend and longer hotel stays among visitors.[185] Furthermore, in FY2021, DPR reached a record of trained travel advisors. As it relates to meetings / conventions, it contracted $49.1 million in business and increased the Island's future meeting / conventions sales pipeline by 35% to $362.8 million potential economic impact. DPR also reached $730.3 million in leisure travel revenues directly from advertising, and $73.5 million in tax revenue generated from January to September 2021. Lastly, accommodation tax collections were up 27.9%, lodging revenues 35% higher, and revenue per available room 124% higher than the average in the U.S. (71% higher compared to 2019).

With a limited budget on the first six months of FY2021, DPR had to cut expenses by 56% by reducing staff from 60 to 45, reducing salaries to top earners and/or cancelling non-essential contracts. However, this did not stop their promotional efforts since they shifted their marketing and sales activities to digital. These efforts resulted in Puerto Rico achieving the highest number of web searches for people considering traveling in the coming months. In the past months, DPR has taken several initiatives to keep Puerto Rico in the top of mind of travelers, such as doing virtual tours of the Island and integrations in programs such as morning talk shows. In addition, they have been preparing for the recovery of the industry by developing a comprehensive rapid recovery plan. However, implementing their recovery plans will be dependent on availability of funds from PRTC and/or additional funding from the CARES Act and CBDG-DR.

9.8.1 DPR in comparison to other U.S. and Caribbean Destination Marketing Offices (DMOs)

DPR has a smaller mandate and lower budget in comparison to other DMOs. In FY2022 DPR has only received 40% or $6 million of the contracted budget from the PRTC. The typical DMO markets to six distinct segments: visiting individuals and families; groups (e.g., family reunions); Meetings, Incentives, Conferences, and Exhibitions (MICE); events (e.g., major sports tournaments); residents; and airlines (e.g., purchasing airline ads, subsidizing seats). DPR, however, is only responsible for marketing to individuals, groups, and MICE. PRTC continues to manage event, internal, and airline marketing. DPR also has a smaller budget than other Caribbean destinations —$25 million (or $943 per available hotel room) or 60% of the average budget of $42.1 million (or $1,485 per room) for Caribbean DMOs.[186]

9.8.2 Reform design parameters

The 2022 Fiscal Plan recommends the Government adhere to a set of parameters to enable DPR to capitalize on its early successes and continue leading the Island's emergence as a leading tourist destination. Specifically, DPR should:

- **Work in conjunction with the PRTC in internal tourism, airline, and event marketing** to ensure a uniform and consistent approach and to leverage DPR's expertise and knowledge on research and digital media.

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183 World Travel & Tourism Council, "Puerto Rico: 2019 Annual Research: Key Highlights," 2019.

184 Aerostar, AirDNA, Discover Puerto Rico, Smith Travel Research. In 2019, Puerto Rico welcomed 5.2 million visitors (2016, the previous record-holder, had only 4.8 million air arrivals). Similarly, lodging demand reach 4.7 million units (in both hotels and independent lodging units), up from 4.6 million units in 2017.

185 ADARA Impact, Arrivalist. Visitor exposed to DPR media stayed 4.8 days on average (vs. 4.3) and spent an average of $217 on lodging per night (vs. $199).

186 DPR budget is the established amount on 10-year contract with PRTC, in 2020-21 DPR have not received contracted amount due to lower room tax collected by PTRC. Numbers for other Islands comes from Destinations International.

- **Implement passenger component of Air Transit Hub strategy developed by DPR** that capitalizes on the recently issued Federal DOT waiver. This would involve recruiting a consultant to work with the airlines to align the air transit hub with their business models. DPR also needs funding for marketing the cargo hub to international markets to generate the demand. There is a possibility that additional CBDG-DR funds be assigned to DPR for marketing and promotions that could be used for this purpose.
- **Maximize promotional dollars from funds obtained from the CARES Act, CBDG-DR and other federal recovery programs.** For example, Vivienda previously allocated $7.8 million in CDBG-DR funding to DPR for digital and broadcast advertising. Funds must be spent before February 8, 2022. It is important for DPR to use all awarded federal grant program allocations within allotted deadlines, optimizing allowable uses to further its mission.
- **Continue to strengthen the DPR brand through all marketing and promotions by maintaining a consistent message on Puerto Rico strengths as a destination.**
- **Implement destination visitor research program** to pivot marketing campaigns according to visitor's preference and to communicate to Government agencies areas of opportunities on infrastructure and services.
- **Implement a Small and Medium Enterprises (PYMEs, by its Spanish acronym) recovery plan to help the industry prepare for reinvigorated tourism after the pandemic.**

9.8.3 Reform targets

DPR's initial performance indicates that the organization can effectively compete with top-ranked Caribbean DMOs and destinations in attracting visitors and growing the Island's tourism sector. Given the COVID-19 pandemic's impact on global tourism, however, no targets were in effect for FY2021.[187] Nevertheless, after massive vaccination in the U.S. and demonstrated interest from travelers to come to Puerto Rico, DMO should work with the Oversight Board to establish new FY2023 targets that build upon and surpass the targets previously set for FY2022 (below):

- -10% vs. pre-COVID in the tourism sector's direct contribution to GNP
- -12% vs. pre-COVID in direct contribution to employment
- -10% vs. pre-COVID average travel receipts per visitor per year
- -14% vs. pre-COVID in tourist visitors per year
- -25% vs. pre-COVID meetings and conventions attracted to the Island[188]

To successfully implement investment attraction reform, the Government should accomplish the following action items by their respective deadlines:

[187] Targets are reduced in response to a projected 71% reduction in global air travel in 2020 (relative to 2019) and a 58% reduction in 2021 (also relative to 2019).

188 Targets are reduced in response to a projected 71% reduction in global air travel in 2020 (relative to 2019) and a 58% reduction in 2021 (also relative to 2019)

EXHIBIT 55: REQUIRED IMPLEMENTATION ACTIONS FOR EFFECTIVE TOURISM ATTRACTION

	Action item	Owner	Deadline
To be completed in FY2022	Create and share Puerto Rico's Travel and Tourism Competitiveness scorecard with Fortaleza, the Legislature, PRTC, and the Oversight Board	DPR	Completed
	Design air hub strategy and share with Oversight Board	Working Group	Completed
	Design air hub strategy with Oversight Board	Working Group	Completed
	Publish promotional plan for upcoming calendar year	DPR	Completed
	Establish air hub working group comprised of DDEC, DPR, IPR, Land Admin, Ports and private sector to design economic development strategy that leverages new USDOT air hub waiver.	DDEC	In process
	Assure funding for implementation of passenger component of Air Transit Hub	DPR/DDEC	In process
	Establish and document Strategic marketing plan (to drive demand) for passengers through Air Transit Hub	DPR	Completed
	Participate with PRTC in the development of internal tourism marketing strategy	DPR/PRTC	In process
	Participate with PRTC in development of airline marketing strategy	DPR/PRTC	In process
	Implement 1st Phase of Small and Medium Enterprise (PYME) recovery plan	DPR, Governor	Completed
	Implement destination visitor research program	DPR, PR & Federal Government	In process
	Launch Phase II of (PYME) recovery plan	DPR	December 31, 2021
	Secure fully-funded Co-op budget of $5M, per the law (Act 2017-17)	DPR	Delayed - December 31, 2021
	Implement passenger component of Air Transit Hub project based upon strategy developed by DPR - Launch passenger recruitment	DPR, DDEC/PRTC	January 31, 2022
	Launch Phase 1 of Island wide multimedia content repository collabatoria	DPR	January 31, 2022
	Generate $12:1 ROI for overall investment in PYME recovery plan	DPR	June 30, 2022
	Launch Phase II of Island wide multimedia content repository	DPR	June 30, 2022

Chapter 10. Power sector reform

10.1 Introduction and context for energy reform

Affordable, reliable, safe, and resilient electric power service is essential for Puerto Rico's economic growth and development. It is a fundamental enabler of the people of Puerto Rico's livelihoods and remains a critical service that needs to be safeguarded, particularly in light of the outsized catastrophic events in 2020 (e.g., January 2020 earthquakes, COVID-19 pandemic). As an important element of household and business activity, electricity is also a critical factor for attracting and maintaining investment in Puerto Rico. Since 1941, the Puerto Rico Electric Power Authority (PREPA) has been responsible for providing electricity to Puerto Rico. PREPA is a public corporation, owned and operated by the Government of Puerto Rico.

PREPA has been encumbered by numerous financial and operational issues. Over the years, PREPA has failed to update rates to cover base operating costs, neglected to invest in modernizing the system, avoided adequately funding the utility's pension system, and underinvested in maintenance and resiliency initiatives for its assets. Furthermore, prior to filing for PROMESA Title III protection, PREPA incurred significant legacy debt obligations, failed to implement a long-term capital improvement program, and made decisions based on short-term political gains (e.g., avoiding modest rate increases), all of which have culminated in consistently poor and unreliable service.

This operating model has created an untenable financial and operational situation for PREPA. Politicized management and volatile fuel prices – exacerbated by declining demand and an economic contraction – have resulted in PREPA's inability to service its debt, and ultimately

resulted in PREPA seeking PROMESA Title III protection in July 2017.[189] For several years prior to filing for PROMESA Title III protection, PREPA lacked access to the capital markets to help fund grid and generation maintenance and modernization investments, further contributing to the poor quality of service experienced by the Island's residents and businesses.

Underinvestment and underdevelopment of the grid, poor maintenance practices, and workforce losses all contributed to an unsatisfactorily performing power sector. Puerto Rico has almost twice as many forced outages as the U.S. industry average.[190] PREPA also significantly underperforms against mainland utilities on multiple reliability and customer service dimensions, as well as safety and operational metrics:

- **The reliability of service provided by PREPA to Puerto Rico's residents and businesses remains well behind industry standards when compared to benchmarks from** the Institute of Electrical and Electronics Engineers (IEEE)[191]: For instance, the median performance among the U.S. utilities reporting in the 2020 IEEE Benchmark[192] is a System Average Interruptions Frequency Index (SAIFI) of 1.12 interruptions per year and a System Average Interruptions Duration Index (SAIDI) of 126 minutes per year[193]. Whereas, for 2019, PREPA reported a SAIFI of 4.6, and a SAIDI of 675 minutes. Outside reviews suggest service reliability may be worse than reported by PREPA. For example, an assessment conducted by LUMA – using the industry standard IEEE methodology – as part of its Front-End Transition responsibilities and submitted to the Puerto Rico Energy Bureau (PREB) reports a SAIFI of 9.8, and a SAIDI of 1,097 minutes for PREPA in 2019.

EXHIBIT 56: RELIABILITY METRICS COMPARED TO PEER GROUP MEDIAN

Metric	PREPA CY 2019	PREPA CY2019 (calculated by LUMA)	IEEE median, 2019 188
System Average Interruption Duration Index (SAIDI) Minutes per year	675	1,097	126
System Average Interruption Frequency Index (SAIFI) Number of interruptions per year	4.6	9.8	1.12

- Employee Safety incidents are high by utility standards: PREPA's Recordable Incident Rate for 2019 is 8.76 while the Edison Electric Institute (EEI) average rate is 1.78.[194]

- Vegetation management issues caused 17% to 28% of service interruptions in 2020, representing an improvement when compared to the 35% to 45% of 2016[195]. PREPA lacks a comprehensive vegetation management strategy and has historically been slow to spend allocated budget amounts for tree-trimming initiatives[196] During the 2020 fiscal year, PREPA

189 "Puerto Rico's Power Authority Effectively Files for Bankruptcy", New York Times, 2 July 2017

190 PREPA reported 417 forced outages during 2020; U.S. Energy Information Administration (EIA), Independent Statistic & Analysis, Major Disturbances and Unusual Occurrences, Year-to-Date 2020

191 The IEEE is a technical professional organization that develops and publishes standards related to the collection, measurement and calculation of key electrical reliability indices, including System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI). In order to benchmark a utility's performance in SAIDI and SAIFI against that of other utilities, IEEE provides rules on how data can be collected, measured and calculated according to the same standards. Participation is limited to North American electric entities

192 Based on 2019 data

193 IEEE Benchmark Year 2020 Results for 2019 Data, 2020 Distribution Reliability Group Virtual Meeting

194 The Edison Electric Institute (EEI) provides comparable benchmarks specific to transmission and distribution operations in the United States. EEI was established in 1933, is an association that represents all U.S. investor-owned electric companies. Its members provide electricity for 220 million Americans, operate in all 50 states and the District of Columbia, and directly employ more than 500,000 workers

195 "...[PREPA] describes itself as always playing a catch-up game on maintenance — following outages, instead of improving the fundamental system." Fisher and Horowitz, Expert Report, p 33

196 PREPA, "Professional & Technical Outsourced Services," B2A YTD-Expenses, Budget to Actual Variance Report for the Second Quarter of Fiscal Year 2021, (data set, February 16, 2021)

only spent 10% of its $50 million budget for vegetation management. Mainland U.S. utilities, by contrast, typically have operating budgets where vegetation management is one of the largest spend category. More recently, PREPA has shown improvement in this area. As of February 2021, PREPA has obligated 89% of its $70.5 million budgeted for vegetation management, out of which 20% ($14 million) has been spent. In terms of miles cleared, as of February 2021, 732 miles out of 2,595 had been cleared, representing approximately 28% of total miles contracted.[197]

- Puerto Rico's emissions from electricity generation remain relatively high as compared to the rest of the U.S. due to a high reliance on fossil fuels and the continued use of older and inefficient facilities. This is due to a severe lack of investment into generation assets, low asset reliability, and maintenance of a very high reserve margin.
  - **High reliance on fossil fuels:** Puerto Rico's generation fleet is highly dependent on fossil fuels. In FY2020, over 97% of the Island's electricity was generated using fossil fuels.[198] As a comparison, the U.S. national average was approximately 60% for the same period. Fossil fuel generation makes Puerto Rico vulnerable to changes in fuel prices, which can substantially increase generation costs and thus increase electricity prices for its residents.
  - **Lack of capital investments in new generation assets:** Minimal capital investments into generation assets have resulted in an aged and highly unreliable fleet; the average age of PREPA's generation fleet is 41 years compared to the U.S. average of only 18 years. [199,200] As a result, asset reliability has been poor, and PREPA is often forced to rely on its diesel generators that would otherwise be inactive or retired. [201]
  - **Maintenance of a very high reserve margin:** PREPA has historically maintained a very high reserve margin, keeping more than double the capacity needed to serve demand.

Previous Fiscal Plans of the Commonwealth and PREPA have outlined a comprehensive power sector transformation to address PREPA's financial and operational challenges, which have been caused by mismanagement, underinvestment and underdevelopment of the grid, as well as poor operations and maintenance practices. Although the first steps on PREPA's transformation journey, that started over the last 3 years, have already led to increased financial stability, a number of challenges still lie ahead.

10.2 Vision for power sector transformation

Over the next years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from the 2022 Fiscal Plan projections. The successful transformation of Puerto Rico's power sector depends on:

1. **Implementing regulatory reform:** A strong and independent energy sector regulator is essential for injecting certainty and stability into the energy market, promoting much needed investments, and enforcing compliance with the energy sector transformation's objectives. In recent years, the framework of regulatory reform has been approved and an independent

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197 FY2021 Fiscal Plan Initiatives Reporting, January 15, 2021; PREPA's Vegetation Management report, February 2021

198 "Puerto Rico: Profile Overview." U.S. Energy Information Administration, last modified November 21, 2020

199 PREPA, *2019 Fiscal Plan*, p 30

200 U.S. Congress, *Exploring Energy Challenges and Opportunities*, p 4

201 "A review of PREPA's generation patterns reveals that PREPA, in fact, increased its reliance on the diesel generation fleet in FY2015 and FY2016, doubling its use of distributed generation turbines and tripling its use of the diesel Aguirre CC plant." Fisher and Horowitz, *Expert Report*, 31-32

regulator, the Puerto Rico Energy Bureau (PREB), has been established. The focus in coming years will be continuing to support the independence of the regulator and enabling the regulator to execute on its mandate. This will be accomplished by developing and strengthening the regulatory framework and promoting greater transparency and accountability.

2. **Transitioning the operation and management of PREPA's electricity grid and generation assets to private operators, while moving the energy system to 100% renewables:** Attracting a private operator to manage and operate Puerto Rico's Transmission and Distribution (T&D) network will improve affordability, operational performance and customer service, support rigorous capital project execution to modernize the system, strengthen grid resilience, and ensure ongoing fiscal balance and control. As such, on June 22, 2020, the transformation of the Island's energy system took another step forward through the execution of the agreement[202] with LUMA Energy, LLC (LUMA). Under the agreement, LUMA is responsible for, among other activities, the operation and maintenance of the transmission and distribution assets and system. On November 10, 2020, the Puerto Rico Public-Private Partnership Authority (P3A) issued a Request for Proposals (RFP) to select one or more private operators for PREPA's existing generation assets. As the entity responsible for developing and implementing the Integrated Resource Plan (IRP) approved by PREB, LUMA will be responsible for enabling, in coordination with PREB, PREPA and other relevant parties, the transition of the power sector to 100% renewable energy, as mandated by Act-17, as well as maximizing and efficiently delivering the federal funds allocated for the modernization of Puerto Rico's energy grid.

3. **Restructuring legacy debt obligations:** To fund the transformation of Puerto Rico's power sector, PREPA will require access to capital markets. Given the utility's significant legacy debt obligations, a sustainable restructuring plan is necessary for PREPA to exit Title III and regain access to traditional credit markets. Without restructuring, customers will experience higher rates, resulting from repayment of a higher legacy obligation and risk premiums associated with the Title III case. Ultimately, successful restructuring of outstanding bonds and debt obligations will allow PREPA to achieve its transformation goals, thus modernizing Puerto Rico's power grid, and passing on subsequent efficiencies and cost savings to end users.

PREPA's Certified 2021 Fiscal Plan and the energy public policy and legal framework established by the Government of Puerto Rico[203] lays out the transformation roadmap. If successfully implemented, a reformed energy system will lead to a modernized and reliable energy service across the Island: a diversified fuel mix and reduced fuel costs, anchored on low-cost renewable energy generation resources; increased operational efficiencies; and a well-funded, financially sustainably utility. These outcomes will benefit the customers and businesses of Puerto Rico through more affordable, reliable, clean, and safe electricity service.

10.2.1 Energy regulatory reform and oversight

As previously stated, the current regulator of the power sector in Puerto Rico is the Puerto Rico Energy Bureau (PREB), which has been operational since its creation by Act 57-2014. PREB has the responsibility to "regulate, monitor, and enforce the energy public policy of the Commonwealth of Puerto Rico."

As Puerto Rico's energy sector is transformed into a vibrant, modern system, PREB will continue to be responsible for the development of a robust regulatory framework that will promote prudent investments by utilities, increase quality of service to customers, and ensure industry trends and technological advancements are appropriately incorporated into Puerto Rico's energy system. To

202 This agreement was deemed to be compliant with the Commonwealth's energy policy by PREB on June 17, 2020 and approved by PREPA's Governing Board, the Governor, and the Governor of Puerto Rico on June 22, 2020
203 Puerto Rico Energy System Transformation, Act No. 120-2018; Puerto Rico Energy Policy Act, Act No. 17-2019

that end, PREB's regulatory oversight will directly impact the utility and have significant influence on Puerto Rico's energy sector. To fully achieve its purpose, PREB should remain financially independent from the Government and its decisions, and its determinations should be free from any political influence or interference.

To ensure PREB becomes a best-in-class regulator, several structural changes are required, as detailed below. In addition, the following section provides a description of what PREB's roles and responsibilities will be in the long-term as well as the near-term delineation responsibilities between PREB and the Oversight Board.

Long-term mandate, authorities, and expertise for the energy sector regulator

To be effective, PREB's regulatory authority and its mandate to promote an efficient, reliable, resilient, and customer-responsive energy system must be clear and well-established. In a transformed energy system state (after emergence from Title III), PREB's responsibilities include (1) rate setting, (2) Integrated Resource Plan (IRP) approval and compliance oversight, (3) protecting customers, and (4) ensuring workforce safety.

Rate setting for non-legacy debt: PREB should "review and approve and, if applicable, modify the rates or fees charged by electric power service companies in Puerto Rico."[204] In doing so, PREB should ensure rates and rate structure are rational and predictable, minimize risk and "rate shock", and create incentives to support equitability and economic development. PREB should set a clear, transparent, and efficient process for rate cases. All rate adjustments and revisions, other than those approved under the plan of adjustment, must be approved by PREB before enactment. In this capacity, PREB must ensure that necessary operational frameworks are in place to not only provide a robust review process in line with best-in-class U.S. state regulators, but also ensure that rate reviews are conducted efficiently and in a manner that does not adversely impact service performance or consumer confidence.

Over the next years, PREB should encourage the implementation of several core principles within rate case proceedings, including the development of dynamic rate structures (e.g., time of use, rate decoupling, unbundling), evaluating prudency of investments and cost of service, and analyzing the distribution of cost and revenue allocations.

Integrated Resource Plan (IRP) approval and compliance: PREB is mandated to "review and approve policies and strategic plans [...] in connection with energy resources integrated planning in Puerto Rico and oversee compliance therewith."[205] During review, PREB should assess related policies and plans on whether they meet the objectives of Puerto Rico's energy public policy and promote energy service reliability, safety, efficiency, and affordability.

Protecting customers and customer service: PREB is responsible for ensuring energy prices are just and reasonable, investments are aimed at improving service quality, and reliability, and customers have access to information regarding their rights and responsibilities. This includes reviewing potential policies, rates, and capital projects for their potential effects on customers and service quality, and ensuring customers understand and have the ability to voice their opinions regarding future decisions. PREB is also responsible for addressing customer complaints and ensuring customers are not subject to unjust or abusive practices by their energy providers.

Ensuring safety: PREB is responsible for ensuring the safe operation of Puerto Rico's utilities for workers and the public. This is particularly important given the high number of safety incidents PREPA has experienced by U.S. utility standards. PREPA experiences significantly higher workplace incidents than the average U.S. utility. From 2018 to 2019, PREPA's recordable Incident Rate fell from 10.7 in 2018 to 8.76 in 2019, yet it was nearly five times higher than the

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204 "About the Puerto Rico Energy Bureau" at Puerto Rico Energy Bureau website. Accessed April 20, 2021.
205 Ibid.

U.S. average of 1.78.[206] PREB should develop a comprehensive safety plan addressing overall safety culture at regulated entities and ensure that utilities have sufficient resources to comply with these plans. Finally, PREB should establish, track, and analyze key safety performance metrics, and monitor the effectiveness of utility safety programs.

Regulator expertise

To implement its long-term mandate in a robust and effective manner, PREB must build expertise on topics that reflect the core regulatory priorities facing most regulators:

- Generation planning and dispatch
- T&D reliable operations and capital planning
- Workplace safety
- Customer service
- Rate-making

In addition, PREB can build expertise in topics that are increasingly addressed by regulators across the mainland so that Puerto Rico's energy sector is able to match pace with best-in-class utilities. By doing so, PREB can provide proper guidance to sector players on how to secure, modernize, and efficiently operate the grid. These topics include:

- Contribution-in-lieu of taxes (CILT)
- Renewable energy integration (distributed and commercial)
- Weather-related risks (e.g., hurricanes, climate change)

Authorities for the energy sector regulators during transformation

Until PREPA emerges from Title III and the transformation of the energy system is complete, it is important to clearly delineate the role of the Oversight Board and PREB with respect to energy sector regulation. The table below describes the role of each entity during the transition period:

[206] The Edison Electric Institute (EEI) provides comparable benchmarks specific to transmission and distribution operations in the United States

EXHIBIT 57: ROLES OF THE OVERSIGHT BOARD AND PREB DURING THE TRANSITION PERIOD

	Oversight Board	PREB
IRP	Approves revenue requirements and expenditures in the Fiscal Plan for PREPA. PREPA's Fiscal Plan should be informed by the results of the IRP and provide a clear framework for executing the modernization of generation resources.	Approves the IRP. The IRP process shall be open and transparent so that third parties can understand inputs and methodologies behind each scenario and be able to participate and attend hearings to understand the decisions driving approval of the final capital plan and revenue requirement.
Budget and rate-making	Approves a yearly budget for PREPA that aligns with PREPA's Fiscal Plan and thus should align with revenue requirements and expenditures.	Authorize rates, except those approved under a plan of adjustment, (either formulaic or on an expedited manner) which align with the budget as certified by the Oversight Board.
Utility debt	Approves restructuring of existing debt through the Plan of Adjustment for PREPA.	No authority
Liquidity management	Oversees liquidity management in the energy system, to ensure that consistent and quality energy service to customers is not disrupted.	No authority
Title III	As the representative of PREPA in Title III, the Oversight Board has the exclusive right to file a Plan of Adjustment, which will contain any transformation-related agreements.	No authority
Transition to Privately Managed Operations	Approves any operator that engages with PREPA (e.g., T&D and generational operators). After the operators have been installed, the Oversight Board will continue to ensure compliance with PROMESA and the energy sector transformation objectives. The interaction between PREPA, the operators, and the Oversight Board will be determined at a later date.	Issues Energy Compliance Certificate and approves the following: performance metrics, rate orders (when applicable), System Operation Principles, System Remediation Plan, Integrated Resource Plan ("IRP"), among others.
Other	Track PREB's actions around distributed generation, net metering, and CILT to ensure the regulator is providing proper oversight over these critical topics.	Continues to exercise duties and responsibilities (e.g., addressing distributed generation, net metering, and CILT) as outlined in its enabling laws, except when doing so is inconsistent with the powers and authorities delegated to the Oversight Board under PROMESA.

Structural elements to ensure a best-in-class regulatory agency

Although administratively located within the Puerto Rico Public Service Regulatory Board (PSRB), PREB's decision-making process should not be subject to direct or indirect review by other government entities, except for any review under applicable administrative procedure rules or with respect to issues that are covered by a federal statute such as PROMESA. Staff involved in substantive decision-making should be kept separate and independent from the PSRB and be fully dedicated to matters within PREB's jurisdiction and purview. PREB may, on an annual basis, provide funds to the PSRB to cover administrative and other operational costs, however, PREB's resources should be kept separate and shall not be controlled or placed under the direction of the PSRB.

There are five key structural elements that will ensure PREB is a best-in-class regulatory agency:

- *Governance:* It is imperative that PREB's governance structure enable independent, quick and robust decision-making. In line with best practices for regulatory commissions (e.g., California Public Utilities Commission, Hawaii Public Utilities Commission, New York Public Services Commission), PREB is headed by five commissioners who serve staggered six-year terms. The commissioners are appointed based on their technical, professional and/or academic credentials, with potential candidates identified and appointed through a candidate list developed by an external recruitment firm. The commissioners should be supported in their oversight role by professional civil servant staff that has utility expertise.
- *Independent ratepayer advocate:* All commission decisions in adjudicatory proceedings must comply with applicable requirements of administrative procedure. Separate from the regulator, there shall be an independent ratepayer advocate, a role currently filled by the *Oficina Independiente de Protección al Consumidor* (OIPC). OIPC should be well-funded so that it has the resources to meet its responsibilities. Currently, PREB transfers 10% of its budget to OIPC; as priorities evolve and the need for a robust consumer advocate increases,

the Government may – with the approval of the Oversight Board – provide OIPC with additional funding.

- *Employee structure:* Presently, all 23 of PREB's employees are considered trust employees, meaning PREB's organizational structure fails to comply with Act 17, which requires PREB to achieve an employee structure wherein trust employees comprise no more than 25% of employees.[207] Moreover, the 2020 Fiscal Plan required PREB to further reduce this amount to no more than 15% by June 30, 2021 and 10% by June 30, 2022.[208] On November 23, 2020, the Oversight Board partially approved a budget reprogramming request submitted by PREB to fund the creation of 22 civil servant positions and maintain existing 7 trust positions.[209] While the structure proposed by PREB would have allowed it to achieve the Act 17 target of no more than 25% trust employees, PREB would still fall short of the 15% trust employee target by June 30, 2021 outlined in the 2020 Certified Fiscal Plan. Accordingly, no later than December 31, 2021, PREB should have reduced the number of trust employees to no more than 15% of total employees, with a further reduction to no more than 10% trust employees by June 30, 2022.[210]

  During and after the energy sector reform process, PREB must have enough staff to effectively undertake its duties and responsibilities in a timely and professional manner. The selection, hiring, and management of PREB's staff must not be subject to review or approval by any other entity of the Executive or Legislative Branch.

- *Budget:* PREB's substantive independence must be supported by financial independence. Under current law, PREB's yearly budget is set at $20 million and collected through charges assessed on certified energy companies.[211] To provide for a steady and predictable funding source, PREB's enabling act must be amended to provide that PREB's budget shall be funded entirely through rates, as part of the revenue requirement used to determine energy rates. PREB's funds are then collected by the T&D operator through customer bills and periodically remitted to PREB. This funding mechanism is consistent with the mechanisms used to fund peer mainland regulators. Providing for an independent and unencumbered source of income for PREB helps create the conditions to protect ratepayer interests, increase transparency, and reduce system costs. However, the Government has not yet complied with this requirement and has not ensured a steady and predictable source of funding to PREB. Instead, PREB is currently being funded through fees levied on energy companies certified by PREB to provide energy services in Puerto Rico.

  While the Oversight Board is in existence it can ensure PREB's budget through its budgetary powers. However, moving forward, PREB's budget and funding must be kept separate and independent from the Commonwealth budget or the budget of any other Commonwealth agency, entity, or instrumentality, and neither the Executive nor the Legislative branches should have authority to modify PREB's budget or reapportion any of PREB's funds without PREB's prior consent. PREB is subject to periodic reviews from relevant authorities for use of public funds, which is consistent with all other Government agencies in Puerto Rico.

- *Transparency:* To achieve best-in-class status as an energy system, transparency is an indispensable factor. PREB must ensure that proactive transparency permeates relevant energy operations, while being diligent in excluding confidential information such as customer data and operational details that would increase cyber or risk vulnerabilities. Transparency practices may include making information publicly accessible, maintaining

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207 "Trust employees" includes any employees that are related to political appointments, non-civil service appointments, etc.

208 To show that this has been completed, PREB needs to submit an organization chart showing the split of employees (civil servant vs. trust) no later than the end of Q1 of FY2021. However, PREB has not yet complied with this requirement

209 Approved for remaining 8 months of fiscal year; partially approved medical insurance.

210 Relevant milestones and deadlines are shown in *10.3*

211 Amount in line with other jurisdictions; the Hawaii Public Utilities Commission had revenues of $19 million in FY2017 to serve a population of 1.4 million

quick and efficient decision-making, and holding public events when appropriate in order to consider public opinion. Additionally, PREB must uphold transparency in its own financials and operations, including disclosing how it utilizes its annual budget.

10.2.2 Vision and structure for an energy system operator

As described above, private operators for T&D and generation operations will be responsible for executing Puerto Rico's energy system modernization strategy as well as assisting with the allocation of related federal funding. Each private operator's overall objective will be to improve service quality and deliver reliable service at just and reasonable prices. As such, a private operator will be motivated to deliver financial and operational performance improvements across six dimensions:

- **Reduce costs by introducing experienced personnel.** A private operator would be incentivized to reduce PREPA's dependency on outsourced contracts by insourcing activities, empowering the local labor force, and potentially achieving economies of scale.
- **Upgrade technology.** While PREPA has limited access and experience with industry-standard technology, a private operator would be incentivized to deploy modern grid technologies, digital capabilities, and infrastructure to significantly enhance operational efficiency, thus lowering O&M costs and customer rates over time through better asset utilization.
- **Improve processes and procedures.** Drawing on operational expertise, a private operator would be incentivized to streamline and standardize critical management processes and implement operational efficiencies (e.g., processes such as procurement, contract management, maintenance). A private operator can also leverage experience in customer service to improve PREPA's responsiveness to customer needs and expectations.
- **Limit political interference.** A private operator's decisions would be subject to independent regulatory oversight, but free of political interference. This would lead to the adoption of standard industry practice where experienced utility operators make operational decisions with oversight from an independent regulator (e.g., investment decisions made based on overall benefit to the system, instead of short-term political gains).
- **Effective and efficient capital delivery.** A private operator would be incentivized to establish the tools and processes critical to improving PREPA's capital project management. This will be key to unlocking the federal funding required for grid modernization and generation improvements, which in turn will aid PREPA in strengthening grid resilience and making its generation fleet future proof.
- **Renewable energy generation and transmission**. A private operator would assist with and enable the transition to a clean, reliable, and sustainable energy sector. This shall include renewable energy procurement and/or procurement support, renewable energy program management, T&D system modernization, and renewable generation scheduling and dispatch. These efforts are required to meet the goals set up by Act 17, which mandates that Puerto Rico should obtain 40% of its electricity from renewable resources by 2025, 60% by 2040, and 100% by 2050.

Energy Sector Reorganization

To achieve Puerto Rico's energy system transformation, a change in PREPA's historical roles and responsibilities and their reassignment through multiple entities is imperative. The first step in this restructuring process was taken with the enactment of Act 57-2014, which established the Island's energy regulator, PREB. PREB's establishment eliminated PREPA's prior authority to self-regulation and installed those regulatory and oversight responsibilities within PREB. In

Puerto Rico's transformed energy system, those regulatory roles and responsibilities remain at PREB.

PREPA's Certified 2020 Fiscal Plan required PREPA's vertically integrated operations to be, as mandated by law, disaggregated into Generation and T&D utility functions – GenCo and GridCo, respectively. GridCo (which comprises transmission and distribution, customer service and administrative functions, operated and maintained by LUMA Energy, LLC or "LUMA") and GenCo (which comprises existing PREPA-owned generation resources that are to be operated and maintained by one or more private operators until their retirement, as mandated by PREPA's approved Integrated Resource Plan).[212] Besides the selection of LUMA as the T&D operator, the Island's transformed energy sector also envisions GenCo being responsible for, among other activities, the operation and maintenance of existing PREPA-owned generation resources, environmental compliance, safety and plant retirement and decommissioning. Additionally, GenCo will be responsible for working closely with LUMA to ensure appropriate short-, mid- and long-term system planning and timely and efficient execution of system-wide capital improvements.

Finally, PREPA's existing day-to-day roles and responsibilities over the operation of the energy system, deployment of federally and non-federally funded capital investments, short medium, and long-term system planning and energy sector oversight are expected to be reduced over time as such roles and responsibilities are taken up by the relevant Government agencies and private operators. [213]

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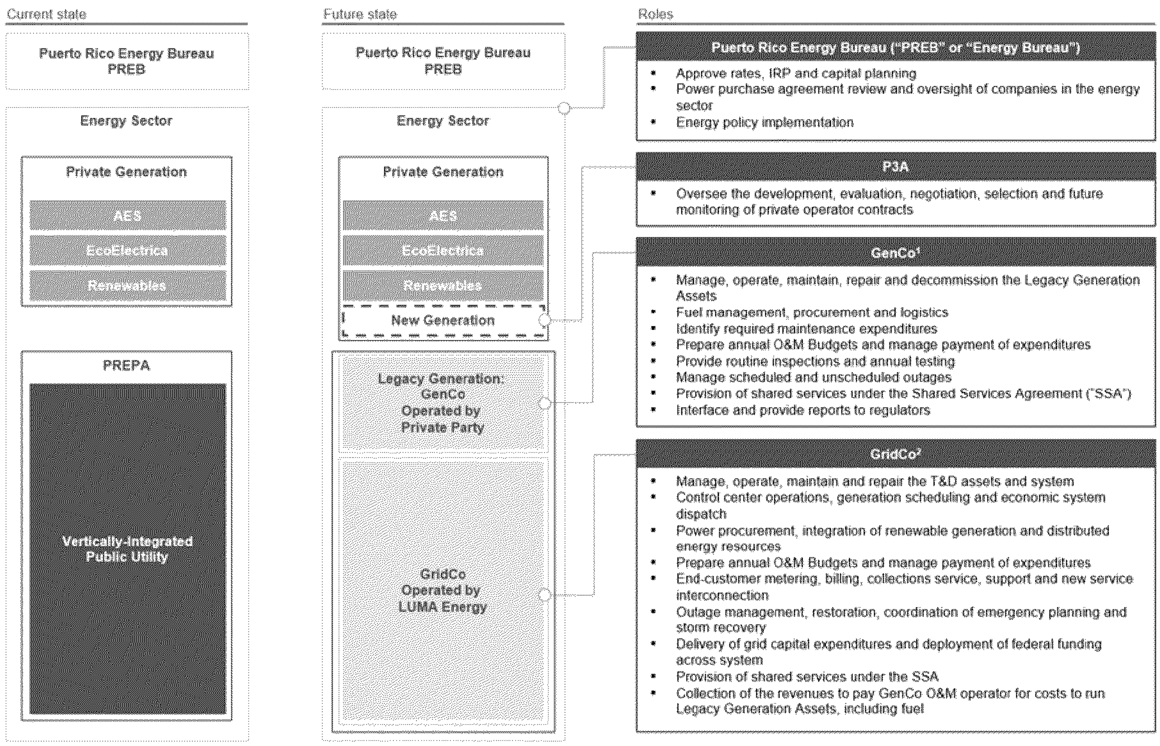
[212] See Section 1.8 of the Puerto Rico Energy Public Policy Act; Act 17-2019

[213] See Section 1.7 of Act 17-2019, which states that "the Government of Puerto Rico, by itself or through the Authority or another public corporation affiliated to the Authority, shall maintain ownership of the transmission and distribution assets and may maintain ownership of the legacy power generation assets." See Section 1.8(b) of Act 17-2019 which also provides that PREPA shall only "retain personnel as are necessary to fulfill its responsibility as a Partnering Government Entity, as such term is defined in Act No. 29-2009, of assisting the Public-Private Partnership Authority in overseeing the Contractor's performance of the Partnership Contract and compliance with the performance-based metrics set forth therein." Pursuant to the LUMA agreement, PREPA delegated any duties with respect to overseeing LUMA's performance to the P3A

EXHIBIT 58: ENERGY SECTOR TRANSFORMATION – CURRENT AND FUTURE STATE



1. GenCo refers to the wholly-owned subsidiary of PREPA who would obtain ownership of the Legacy Generation Assets after a potential reorganization of PREPA.
2. GridCo refers to PREPA, in its capacity as owner of the T&D assets.

System modernization

In September 2017, Puerto Rico's electric system was completely devastated by the landfall of Hurricanes Irma and María, resulting in the longest electrical blackout in modern U.S. history. In efforts to mitigate the economic, fiscal, and social impacts of future storms, FEMA and the Government agreed to a fixed cost estimate of $10.7 billion to repair the electricity system in Puerto Rico (see *Exhibit 59* below). Of those $10.7 billion, $9.7 billion would be provided by FEMA, with the remaining $1 billion to be covered by PREPA through own funds and/or available CDBG funding.

EXHIBIT 59: PREPA ASSET CATEGORIES AND COST ESTIMATES

Asset category	Eligible cost, $
Building Assets	125,088,362.54
Transmission Assets	2,642,131,654.47
Substation Assets	781,890,093.70
Telecommunications and IT	685,928,720.98
Generation Assets	108,927,715.08
Distribution Assets	837,404.90
Water Assets	860,926,275.87
Total Eligible Costs from FEMA	10,704,730,227.54

Transmission & Distribution Modernization

Approximately $8.1 billion (76%) in FEMA reconstruction funds are destined for Transmission & Distribution Assets,[214] which include thousands of miles of transmission and distribution lines. The remaining 24% is destined to Hydro Assets $860 million (9%) Substation Assets $782 million (7%),[215,216] Telecommunications Assets $686 million (6%),[217] Building Assets $125 million (1%)[218], and Generation Assets $108 million (1%).[219] After the transition to LUMA has been completed, LUMA will be responsible for implementing the modernization of the T&D system.

Generation Assets Modernization

As directed by the PREB, and as required under Act-57, PREPA prepared an IRP intended to consider all reasonable resources to satisfy the demand for electrical services over a twenty-year planning horizon. The IRP as well as Act 82-2010, as amended by Act 17, directs PREPA to procure Renewable Energy Resources in accordance with the following milestones relative to the aggregate percentage of generation supplying its system: 20% by 2022, 40% by 2025, 60% by 2040 and 100% by 2050. On February 22, 2021, PREPA released RFP No. 112648 for the procurement of up to 1,000 MW of renewable energy resources capacity and 500 MW of energy storage resource capacity. This marks an important first step for Puerto Rico and its journey towards delivering clean, sustainable, and reliable energy and will accelerate the deployment of renewable generation sources. This RFP represents the first of six RFPs to procure a total of up to 3,750 MW renewable energy resources and 1,500 MW of energy storage resources during the next 3 years. This first RFP received strong response from the market, with PREPA receiving more than 70 proposals. In December 2021, and after some delay, PREPA announced the selection of over 800 MW of renewable energy generation and 220 MW of energy storage and submitted the proposed projects to PREB for approval. PREB is expected to issue its determination with regards to the proposed projects during the third quarter of FY2022. Moreover, as a result of the numerous delays experience during the Tranche 1 process, PREB determined to assume direct responsibility over future procurement tranches through the appointment of an independent coordinator, with PREPA retaining a technical support role. PREB initiated the second Tranche of procurements on January 13, 2022 and launch of the RFP is expected to take place during the third quarter of FY2022. Previously, on February 26, 2021, the Oversight Board approved two (2) PPOAs to deliver 150MW of renewable generation to further accelerate the transition towards a modern, clean and efficient energy system.

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214 Transmission and Distribution assets include the following: approximately 2,491 circuit miles of overhead transmission lines, 37 miles of underground 115kV cable, 63 miles of underground 38kV cable, 22.59 miles of submarine 38Kv cable to the islands of Vieques y Culebra, 708 access roads, 1,229 distribution feeders including 182,985 transformers and 16,800 miles of overhead and underground line, 342,569 each of Streetlights with an estimate of total population of 489,385 streetlights Island-wide, Poles and power line hardware

215 The Water Assets consist of Hydroelectric Plants, Dams, Irrigation Channels, and Water Conveyance infrastructure

216 Substation Assets include 392 substations and Transmission Centers located in 292 facilities

217 Telecommunication Assets consist of telecom facilities, communication hardware, software, information technology (IT) and other peripheral elements

218 Building Assets consist of 134 buildings throughout seven regional sectors on the Island

219 The Generation Assets consist of 12 power plants that generate electricity through fossil fuel. Nine power plants are included in this claim: Cambalache, Aguirre, Palo Seco, San Juan, Yabucoa, Mayaguez, Vega Baja, Daguao, and Jobos

EXHIBIT 60: YEARLY INCREMENTAL RENEWABLE GENERATION CAPACITY PROCURED AND ADDED BASED ON PREB'S GUIDANCE

✓ Completed

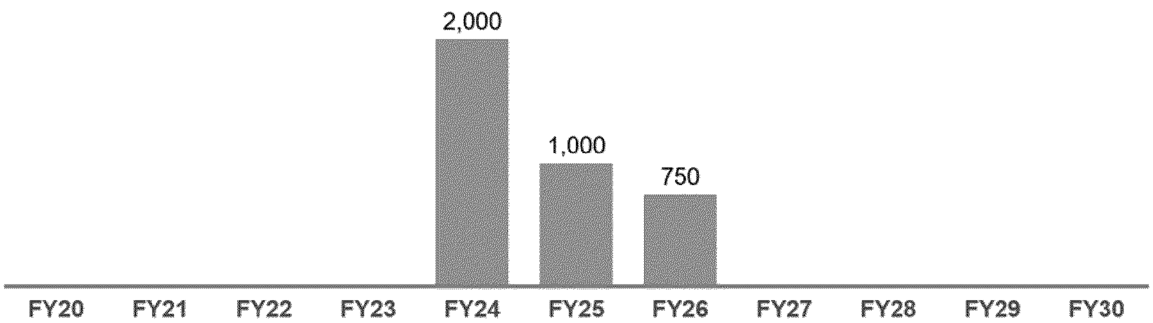
PREB guidance for procurement of renewable generation and battery storage capacity

RFP target release date	Solar PV or equivalent other energy, MW		4-hr. battery storage equivalent, MW		
	Minimum	Cumulative	Minimum	Cumulative	Tranche
Feb. 2021[1]	1,000	1,000	500	500	1 ✓
Jun. 2021	500	1,500	250	750	2
Dec. 2021	500	2,000	250	1,000	3
Jun. 2022	500	2,500	250	1,250	4
Dec. 2022	500	3,000	125	1,375	5
Jun. 2023	750	3,750	125	1,500	6

1 Original date was Dec. 2020, but has been updated to reflect the current review process (RFP 112648 was released on February 22, 2021)
SOURCE: PREB

EXHIBIT 61: PROJECTED INSTALLATION TIMELINE OF THE RENEWABLE GENERATION CAPACITY ORDERED BY PREB

Projected installation timeline of the renewable generation capacity ordered by PREB, in MW



1 Assumes RFP process takes two months, the PPOA finalization process takes one month, construction begins eight months after the PPOA approval, and commercial operations begin 24 months after construction begins

Role of operators

PREPA's existing operations will be split into GridCo (comprising T&D and customer service functions) and GenCo (comprising PREPA's existing generation assets). GridCo and GenCo are to be privately operated by professional entities selected through a competitive process under the supervision of the P3A. LUMA has been selected and has entered into an agreement to manage GridCo, while the process for identifying one or more operators for GenCo is currently underway. As mentioned before, the transition to private, professional operators is expected to improve quality of services, bring cutting-edge knowledge and expertise, improved efficiency, ensure compliance with applicable laws, and promote long-term sustainable planning, among others.

In order to achieve a reliable and modern energy system, PREPA must maintain the minimum levels of working capital needed to ensure all necessary and approved operational and capital

investment expenditures are made on time. To that end, PREPA created and funded various operational reserve accounts to be used by PREPA, LUMA and any additional private operators for use in the day-to-day operations of the energy system, ensure capital availability for maintenance and improvement projects, included FEMA-funded projects, and safeguard the financial sustainability of the system.

On May 12, 2021, the Oversight Board approved the government's request to fund various PREPA operational accounts consistent with the requirements LUMA Energy LLC Operation and Maintenance Agreement (OMA) and certified a revised Fiscal Year 2021 budget for the Commonwealth of Puerto Rico identifying $750 million to be transferred to PREPA as a contribution from the Commonwealth for such purposes. The remaining $250 million required for the accounts was funded from PREPA's cash on hand. As established in the Certified Budget, the accounts are to be used exclusively by LUMA for the maintenance and operation of the transmission and distribution system and the execution of capital improvement projects, including FEMA-funded projects, as such functions are described and contemplated in the LUMA Energy OMA. Moreover, on May 13, 2021, the Oversight Board approved PREPA's request to fund a Voluntary Transition Program ("VTP") for T&D employees that opted to enter the private market or retire, allocating $85 million to the VTP. The incentives included 6-months worth of salary, $600 in health insurance and vacation and sick leave liquidation. On June 18, 2021 AAFAF reported results of the VTP, with a total of $37.5 million expensed in the initiative and 1,023 PREPA employees electing to exit the public sector.

Transmission & Distribution

On June 22, 2020, the P3A, PREPA and LUMA signed a 15-year OMA for the T&D system. Under the OMA, LUMA is responsible for, among other activities, the operation and maintenance of the transmission and distribution assets and system, control center operations, generation scheduling and dispatch, power procurement and integration of renewable generation and distributed energy resources, customer metering, billing and collections, regulatory and environmental compliance delivery of grid-related capital expenditures and deployment of federal funding across the system. On June 1, 2021, LUMA officially took over O&M responsibilities for the T&D system.

Prior to commencing service, LUMA interviewed and hired more than 1,200 PREPA employees. By June 1, 2021, LUMA had hired a total of 2,200 employees. Concurrently, the Oversight Board approved PREPA's request to fund a Voluntary Transition Program ("VTP") for T&D employees that opted to enter the private market or retire. On May 12, 2021 the Oversight Board certified a revised FY2021 budget for PREPA, allocating $85 million for VTP incentives. The incentives included 6-months' worth of salary, $600 in health insurance and vacation and sick leave liquidation. On June 18, 2021 AAFAF reported results of the VTP, with a total of $37.5 million expensed in the initiative and 1,023 PREPA employees electing to exit the public sector. PREPA T&D employees who did not transfer to LUMA nor opted to enter the VTP, were eligible to transfer to another Commonwealth entity (to the extent consistent with applicable law, the 2021 Fiscal Plan and Budgets for the Commonwealth or any other covered instrumentality to which such employees may transfer). As of November 15, 2021, AAFAF and OARTH have reported that a total of 2,283 employees were transferred to Commonwealth roles. Estimated total compensation expenses related to transitioning employees will be ~$126 million in FY2022, which includes an employer contribution amount to the PREPA Employees' Retirement System (PREPA ERS) equal to 15% of payroll for these employees (equivalent to ~$14 million in FY2022).

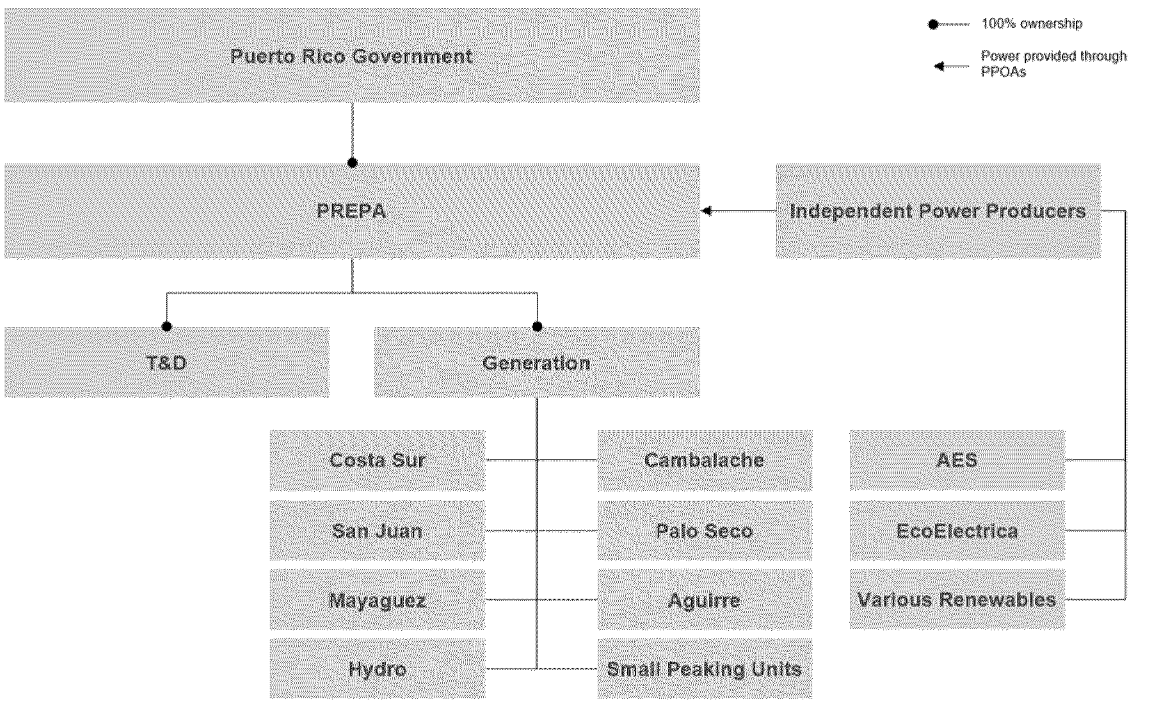
Generation

On November 10, 2020, the P3A launched an RFP to select one or more private operators for PREPA's existing generation assets. The selected proponent(s) will be responsible for the operation and maintenance of existing generation assets until those assets are retired and decommissioned in accordance with PREB-approved integrated resource plan (IRP). Additionally, the selected proponent(s) will be responsible for, among others, environmental compliance and safety, and fuel management. Currently, the P3A is expected to select the winning

proponent(s) by the third quarter of FY2022, with full transfer of O&M responsibilities by the second half of the calendar year.

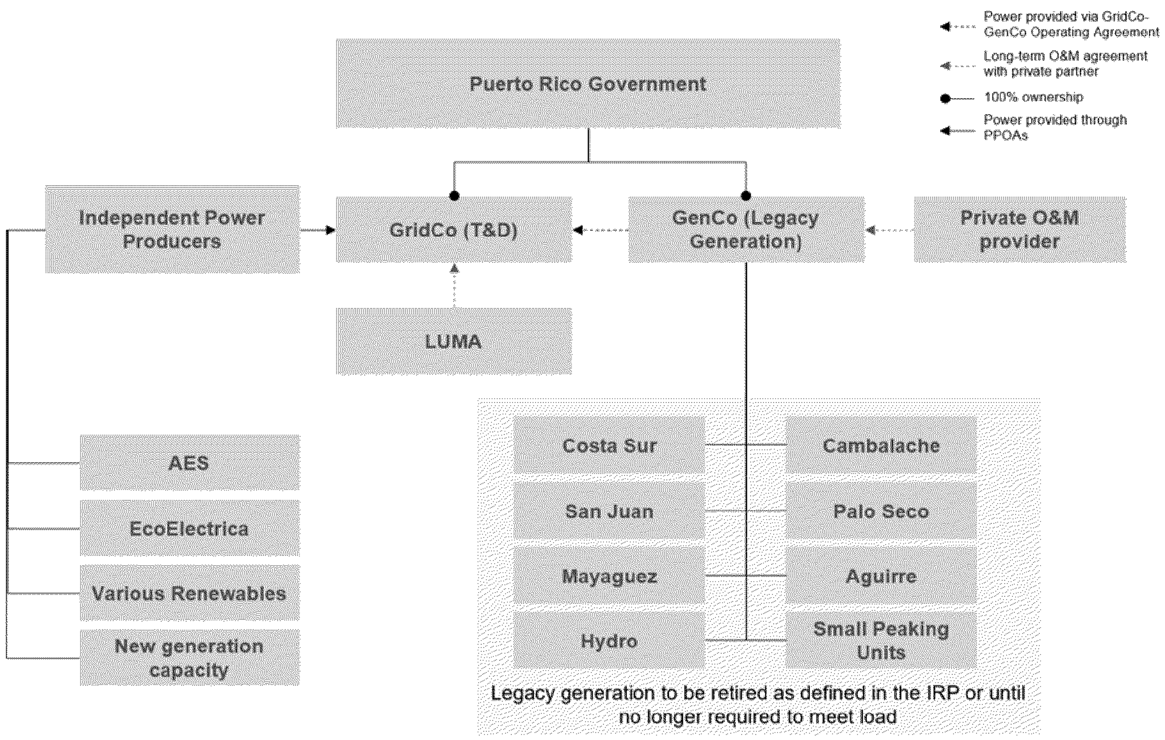
Similar to the GridCo transaction, it is expected that during the transition, Genco will undergo a similar process in terms of its labor force, by which the new operator(s) will interview and hire PREPA employees that meet its criteria. Those employees that do not transfer to the operator may be eligible to transfer to the Commonwealth, as provided by Act 120. As such, the Commonwealth should reserve $26 million to address this situation in the future.[220]

EXHIBIT 62: CURRENT PREPA STRUCTURE



220 Based on a preliminary estimated benchmarking exercise using FERC 2021 generation plant data set, PREPA FY2022 Certified Fiscal Plan, P3A document, PREPA Generation Directorate - Active Employees Roster as of April 2021.

EXHIBIT 63: FUTURE PREPA STRUCTURE



Oversight

During the transformation of Puerto Rico's energy system, i.e., while PREPA remains a covered instrumentality under PROMESA and until PREPA emerges from Title III, PREB will share responsibility for the regulation of the energy sector with the Oversight Board. [221] During this time, the Oversight Board will have authority to approve revenue requirements and expenditures in PREPA's 2021 Fiscal Plan, which should be informed by PREPA's IRP. Additionally, the Oversight Board has the authority to approve a yearly budget and restructure PREPA's existing debt through a Plan of Adjustment and oversee liquidity management. PREB, in turn, will have authority to approve PREPA's IRP, authorize rates that align with PREPA's budget, and will continue to exercise its duties and responsibilities as outlined in its enabling laws, i.e., Act 57-2014 (e.g., addressing net metering, distributed generation, and CILT). Related to the transition of the T&D system and generation to private operators, PREB has the authority to approve performance metrics, rate orders (when applicable), System Operations Principles, the System Remediation Plan, as well as the IRP developed by the private operator. At the same time, the Oversight Board approved any private operator that engages with PREPA, and – after the operator has been installed – ensures compliance with PROMESA and the energy sector transformation objectives.

Once the transformation has been completed and PREPA has emerged from Title III, oversight responsibility in Puerto Rico's transformed energy system lies with PREB and the P3A.[222]PREB retains its roles and responsibilities under Act 57-2014, which include approving of energy rates, integrated resource planning (IRP), capital planning, reviewing of proposed power purchase

221 Stated above in this section

222 The Oversight Board will also retain its power and duties under PROMESA with respect to PREPA as long as PREPA is a covered territorial instrumentality

agreements and oversight of companies in the energy sector, and the implementation of the Commonwealth's energy policy.

On the other hand, the P3A, as Administrator, is responsible for overseeing the development, evaluation, negotiation, selection and future monitoring of private operator contracts. To fully comply with their mandate, the P3A must build up its capabilities in order to assume their role in the transformation process of the energy system. As such, the P3A must develop a plan to develop the organizational structure needed to act as Administrator, build its resources, including the hiring of professional, experienced civil servants, with an aim at reducing trust positions within the Administrator division of the P3A to no more than 10%. Further detail on the timeline for achieving this organizational build-up is provided in *Exhibit 65*.

Energy sector debt restructuring

As of May 2017, PREPA had $9.25 billion of outstanding bond and other debt obligations, and an unsustainable repayment schedule; PREPA would have had to repay approximately $4.5 billion of debt service obligations between FY2019 and FY2023. PREPA's unsustainable capital structure reflects persistent operating deficits, resulting from overly low base rates and high operating costs. As long as PREPA remains in bankruptcy, it poses a risk to suppliers and partners, potentially increasing costs and delaying progress in rebuilding after major catastrophic events (e.g., hurricanes, earthquakes, COVID-19).

To restructure PREPA's debt, a debt restructuring agreement among a group of PREPA creditors, the Oversight Board, the Government, and PREPA is in progress. However, as a result of the uncertain and unpredictable effects of COVID-19 on PREPA and its customers, the Oversight Board requested additional time from the court to assess the situation. PREPA's Restructuring Support Agreement remains in effect and has not been terminated by the Oversight Board, the Government, PREPA, or PREPA's creditors.

10.3 Implementation and enforcement of power sector reform

To achieve 2022 Fiscal Plan savings projections, several reforms to the power sector must be implemented immediately. Several of those measures recommended in earlier Fiscal Plans already have been completed and are listed in *Exhibit 64*.

EXHIBIT 64: COMPLETED MILESTONES FOR POWER SECTOR REFORM

Area of focus	Action item	Responsible party	Completed
Implement regulatory reform	Provide interim feedback on PREPA's Integrated Resource Plan (IRP)	PREB	Completed
	Remove CW government approval needed for PREB staff appointments	CW government	Completed
	Revise charter legislation to provide dedicated funding for power sector regulation that provides regulator with annual budget of $20 million in line with benchmark	CW government	Completed[1]
	Appoint the remaining PREB commissioner to serve staggered six-year terms	PREB	Completed
	Increase number of PREB staff in line with appropriate benchmarks	PREB	Completed
	Approve IRP	PREB	Completed
Transition to private operators	Perform market sounding to collect feedback on interests and concerns from interested parties for generation asset privatization	P3 Authority / Oversight Board	Completed
	Select a winning proponent to manage and operate PREPA's T&D system	P3 Authority	Completed
	Prepare for and launch RFQ for the selection of a proponent for PREPA's generation assets	P3 Authority	Completed
	Prepare for and launch RFP for the selection of a proponent for PREPA's generation assets	P3 Authority	Completed

1 Partially completed. Legislation was adopted (Act No. 17), providing $20 million in funding. However, the funding was not from a dedicated source; PREB will need to confirm completion in the near future.

Exhibit 65 describes the additional reforms required to ensure the transformation of the electricity sector and compliance with the 2022 Fiscal Plan, and to meet the 2022 Fiscal Plan growth and revenue targets. Several of these reforms were outlined in the June 2019 PREPA Fiscal Plan and remain incomplete (demarcated with *).

EXHIBIT 65: PENDING MILESTONES FOR POWER SECTOR REFORM

Area of focus	Action item	Responsible party	Deadline
Implement regulatory reform	Create an oversight and monitoring division for LUMA operation and management agreement and other P3A deals, with experienced career civil servants and minimal trust employees	P3 Authority	Delayed – June 1, 2021
	Provide FOMB with staffing plan and organizational chart outlining the monitoring and compliance division created within P3A and required funding sources.	P3 Authority/ AAFAF/ Legislature	Delayed – June 1, 2021
	Amend PREB enabling act (Act 57-2014) to stipulate that PREB's budget will be funded through rates	Governor/ Legislature	Delayed – December 31, 2021
	Submit implementation plan for achieving a workforce with no more than 10% trust employees.	PREB	Delayed – June 30, 2021
	Reduce the percentage of trust employees to 15% of total employees	PREB	Delayed – June 30, 2021
	Reduce the percentage of trust employees to 10% of total employees	PREB	Delayed – June 30, 2022
	Conclude and publish a study regarding an optimal CILT structure and submit a recommendation to the Governor and the Legislature.*	PREB	Delayed – September 1, 2021[1]
	Develop a CILT process by which municipalities pay for electricity consumption not covered by CILT, and are able to file complaints related to CILT*	PREB	Delayed – December 1, 2021
Transition to private operators	Select a winning proponent to manage and operate PREPA's existing generation assets	P3 Authority	First half of FY23
	Implement approved IRP and grid modernization plan to ensure a modernized, resilient, and reliable grid	PREPA	In process
Restructure legacy debt obligations	Confirm Title III plan of adjustment	FOMB	To be determined
	Implement PREPA plan of adjustment	PREPA	To be determined

* Milestones also recommended in June 2019 Fiscal Plan

1 This is revised from the original deadline in Act 17-2019, which stipulates that, "In view of this new model for an Electrical System, on or before December 31, 2019, the Energy Bureau shall conduct a study on the implementation, effectiveness, cost-benefit, reasonableness, and economic impact of the contribution in lieu of taxes (CILT) to determine the need and convenience, if any, of reforming this mechanism and the subsidies."

Chapter 11. Infrastructure reform

The transportation sector is essential for both economic and social development with transportation systems playing a critical role in facilitating the movement of goods and people. A well-performing system can increase workers' access to jobs and businesses' access to customers, unlocking the productive potential of residents and firms, thereby increasing economic output and inviting further private investment. Meanwhile, a poorly performing system can mire its residents in wasted time, inequitable access to jobs and opportunities, fractured communities, and productivity losses, as can be observed in Puerto Rico.

Puerto Rico's transportation sector underperforms across a range of outcomes. Roads in Puerto Rico are crowded and unsafe, resulting in 80% more traffic-related fatalities than the U.S. average.[223] Among U.S. cities, San Juan has the seventh-longest average commute at 31.2 minutes.[224] Drivers lose 58 hours each year in traffic at a cost of $1,274 per driver and $400 million to the city. [225, 226] Puerto Rico's roads suffer from poor conditions—only 4% of the Island's non-interstate highways are in good condition, compared to the U.S. median of 57%.[227] Furthermore, in 2020 the Highways and Transportation Authority (HTA) reported to FHWA that

223 "Highway Statistics 2019." Office of Highway Policy Information of the U.S. Department of Transportation Federal Highway Administration. Last updated September 30, 2020

224 "150 Best Places to Live in the U.S. in 2020-21." U.S. News and World Report. Accessed 21 April 2021

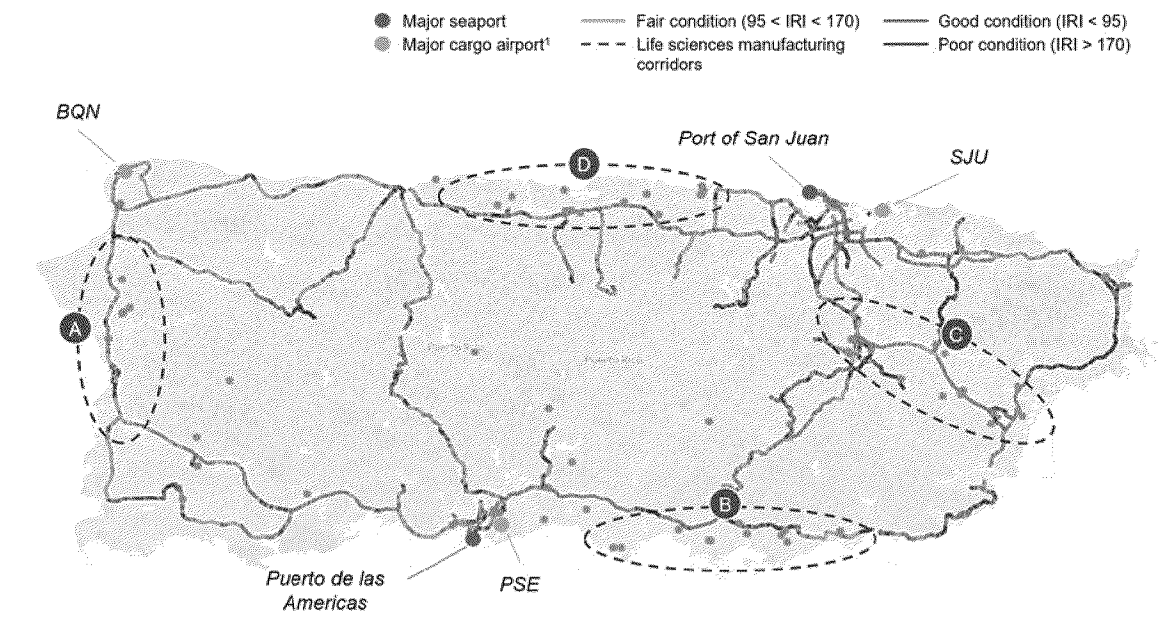
225 "2019 Urban Mobility Report." The Texas A&M Transportation Institute. August 2019

226 Costs include lost productivity, increased freight movements costs, higher operating costs, and decreased reliability. For more information, see "Revised Departmental Guidance on Valuation of Travel Time in Economic Analysis." Memo from Acting Assistant Secretary of Transportation Policy Vinn White to Secretarial Officers and Modal Administrators, September 27, 2016

227 Ibid "Highway Statistics 2019"

12% of Puerto Rico's lane miles are in "poor" condition, thus exceeding the maximum of 5% of lane miles in "poor" state for pavement conditions on the Interstate System as required by federal law. [228,229] As a result, for a second consecutive year, FHWA imposed a penalty and constraints on some portion of its federal allocated funds.[230] Moreover, road safety and congestion are not the only challenges faced by the transit sector.

EXHIBIT 66: POOR ROAD SURFACE CONDITIONS MAKE IT DIFFICULT FOR LIFE SCIENCES MANUFACTURERS TO MOVE THEIR GOODS TO MARKET



1.Airports with meaningful cargo traffic that are key points for air cargo trans-shipment
2.Assumes 9pm departure, for overnight freight shipments
SOURCE: 2018 HTA CIP Validation Report; PRIDCO; Google Maps; FHWA; Invest Puerto Rico

The financial performance and sustainability of the transit sector also lags mainland peers. Tren Urbano's (TU) transit farebox recovery ratio (share of expenses covered by fare revenues) is only 9%, compared to 26% for peer U.S. systems.[231] The proportion of non-fare directly generated public transit revenue (as a percent of total transit revenue) in Puerto Rico is about half of the U.S. median.[232] Construction of TU took 75% longer than expected, delaying its opening by four years, and increasing project costs from $1.5 billion to $2.3 billion. A 2017 assessment after Hurricanes Irma and María found that more than 50% of the turnstiles (barriers) were not operational, 20% of the ticket vending machines were defective and non-compliant with payment card industry standards and used outdated software. TU has failed to fix these problems, despite federal funding being available to do so since 2012.

The ferry service is yet another example of suboptimal performance. For months, the Maritime Transportation Authority (ATM, by its Spanish acronym) has operated with two (2) or fewer of its fourteen (14) ferry boats to meet its service demand due to frequent breakdowns and, for several years, has relied on leased ferry boats to supply services, thereby limiting its ability to invest in its

228 As defined by 23 USC 103(c)
229 23 USC 119(f)(1) and 23 CFR 490.315
230 In a letter dated September 30, 2020, FHWA informed HTA the determination regarding pavement conditions in the Interstate System. After analyzing the 2019 Interstate System pavement condition data reported by HTA on the Highway Monitoring System, FHWA determined that (1) HTA did not meet the minimum level requirements for pavement condition on the Interstate System as required in 23 USC 119(f)(1) and 23 CFR 490.315 and (2) penalty under the provisions of the Interstate System Condition (23 USC 119 (f)(1) must be invoked pursuant to 23 CFR 490.317. As a result, HTA will have constraints on some portion of its allocated funds as per 23 CFR 490.31(e)
231 "2019 data tables." United States Department of Transportation Federal Transit Administration. Accessed April 21, 2021
232 "2019 funding sources." United States Department of Transportation Federal Transit Administration. Accessed April 21, 2021

ferry assets, worsening their condition and further forcing ATM to continue to rely on leased ferries. The Desirability and Convenience Study for the Puerto Rico Maritime Transportation Services PPP further highlights the issues concerning the ferry service. Chief among the challenges is the current state of facilities and vessels, which are in operation beyond their expected service life. Consequently, ferry services are subject to frequent cancellations and delays and increasing maintenance costs, forcing ATM to defer much needed maintenance for its vessels and facilities. The result is an unpredictable and unreliable ferry service that too often leaves the residents of Vieques and Culebra without access to basic goods and services (including access to medical services, given Vieques lacks on-Island hospital facilities), and prevents the Islands from realizing their full potential as world-class tourism destinations.

Given the complexity of managing an entire island's transportation infrastructure cost-effectively, the Government should implement a cohesive policy for the transportation system. The task at hand will result in a total reorganization of Puerto Rico's transportation infrastructure. Such an effort would mainly revolve around the following key initiatives:

1. **Restructuring transportation capabilities and organizational structures by allocating transportation assets into entities based on type of asset and/or transportation service (e.g., toll roads, non-toll roads, mass transit)** to achieve efficiencies in operational expenses and capital delivery while also paving the way for closer collaboration between different transportation entities
2. **Creating an overarching Transportation Policy Board** to ensure consistency in long-term planning strategies and priorities across all transportation assets management
3. **Improving performance management** through the integration in public systems, performance-based contracts, better supervision, and leveraging private sector capabilities
4. **Maximizing available funds through a more aggressive federal grants strategy and attracting private capital**

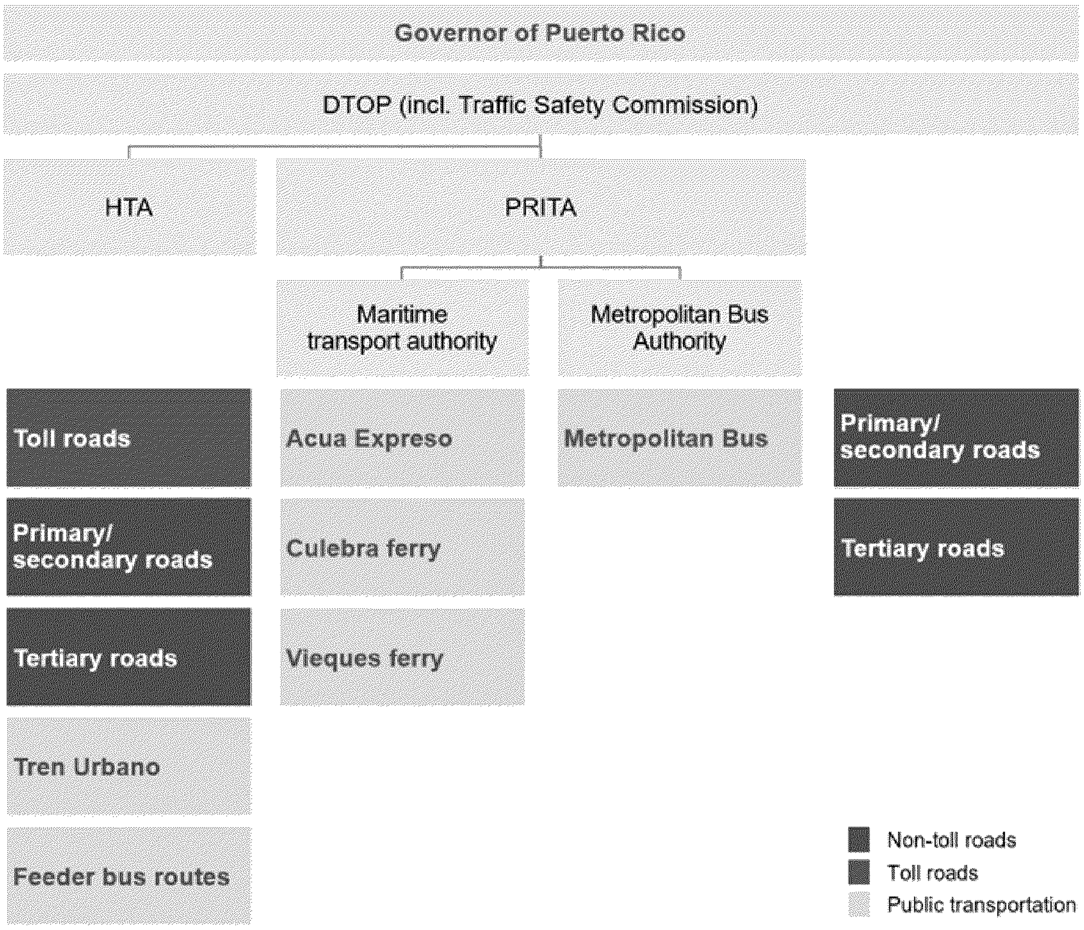
11.1 Current structure of Puerto Rico's transportation system

Individual modes of transportation with overlapping and fragmented ownership

The transportation system falls under the organizational structure of the Department of Transportation and Public Works (DTOP, by its Spanish acronym), which includes the Highways and Transportation Authority (HTA) and the Integrated Transit Authority (PRITA). PRITA is further divided into ATM and the Metropolitan Bus Authority (AMA, by its Spanish acronym).

Currently, asset ownership is fragmented across Puerto Rico's transportation entities. Non-tolled roads are split between HTA and DTOP. Bus routes are divided between HTA and AMA. The urban transit line sits within the highway authority (HTA), rather than the dedicated transit authority (PRITA).

EXHIBIT 67: CURRENT ALIGNMENT OF TRANSPORTATION ASSETS TYPES TO ENTITIES



1. Requires legal, technical, financial capacity, to be ADA and Title IV compliant, to be a disadvantaged business enterprise

Fragmentation across transportation modes inhibits efficient management of the transportation system by complicating budget distribution, priority-setting, and decision making. For instance, even though DTOP is responsible for ~96% of the road system's maintenance (excluding toll roads), HTA often performs such maintenance. HTA's operational and project delivery capacity is further strained due to also being responsible for over ~95% of the road system's construction projects (including toll roads). This mix of both tolled and non-tolled roads leaves HTA with limited resources to concentrate on the operation and maintenance of the toll roads and with a mix of private revenue streams (e.g., tolls and fines) and public funds (e.g., transfers from the Commonwealth) that complicates decision making concerning transportation public policy setting and implementation. As an example, HTA has not adjusted toll rates since 2005, despite increases in both congestion and inflation, toll roads have not been the subject of focused capital investments, and non-toll roads suffer from a backlog of maintenance projects such as toll fare adjustments and toll road capital projects.[233] Furthermore, HTA is the federal grantee for PRITA, ATM, TU, and feeder bus routes, while AMA is its own FTA grantee.

The fragmented ownership of transit assets inhibits cross-modal coordination: TU, AMA, and the feeder bus networks do not have harmonized schedules that enable easy and efficient transfers between modes. This creates a negative user experience for riders and encourages commuters to travel via private vehicle rather than public transit, which in turn worsens the financial

233 In other states, by contrast, toll roads and non-toll roads are managed by independent, apolitical public entities (e.g., Florida Turnpike Enterprise, New Jersey Turnpike Authority) that can focus on maintaining their own financial sustainability

performance of transit systems and increases road congestion.[234] Puerto Rico, furthermore, receives about 90% of the federal funding for roads that could be expected based on its population size.[235] Despite this, agencies struggle to spend all the money available to them due to difficulties executing the backlog of projects.

EXHIBIT 68: TRANSPORTATION ASSET DISTRIBUTION ACROSS PUBLIC ENTITIES

	Assets	Managed by
HTA Toll Roads	▪ 4 tollways: PR-53, 52, 66, 20 ▪ 704 lane miles	▪ HTA responsible for construction, maintenance, and operations
Non-Toll Roads & Bridges	▪ Primary: 3,005 lane miles – Urban: 954 lane miles – Non-urban: 2,051 lane miles ▪ Secondary: 2,304 lane miles ▪ Tertiary: 6,344 lane miles	▪ HTA manages a subset of primary, secondary, and tertiary roads, and is responsible for: – Operation & maintenance of 753 lane miles – Construction of 11,299 lane miles ▪ DTOP owns a subset of roads, but is only responsible for: – Operation & maintenance of 10,547 lane miles ▪ Concessionaires are responsible for the construction, operation & maintenance of the remaining roads: – Abertis manages 9 lane miles – Metropistas manages 344 lane miles
Rail	▪ Tren Urbano	▪ HTA, which was supposed to transfer the administration of this asset to PRITA, but the process stalled
Bus	▪ 3 HTA feeder bus lines ▪ San Juan bus systems (30 routes)	▪ HTA manages the 3 Tren Urbano feeder bus lines. HTA was supposed to transfer to PRITA, but the process stalled ▪ AMA used to administer the San Juan bus system. However, it has recently transferred it to PRITA
Ferry	▪ AcuaExpreso (San Juan) ▪ Culebra and Vieques (Fajardo)	▪ In process of transfer from MTA (Maritime Transportation Authority) to ATI/PRITA
Ports and airports	▪ 9 ports ▪ 10 airports	▪ Port Authority manages both airports and ports (SJU is outsourced to Aerostar)

1 DTOP, Puerto Rico 2040 Island-wide Long Range Transportation Plan, 2013. Estimated ownership of system using HTA provided km-ln by functional road class.

Historically, Puerto Rico has not maximized its funding potential

Currently, AMA has federal grantee status. Meanwhile, PRITA is a subgrantee to the Puerto Rico Ports Authority (PRPA) and HTA. This scenario is far from ideal for PRITA to carry out its mission to operate and invest in Puerto Rico's bus, ferry, and rail transportation services. Furthermore, the proportional allocation of federal funds to transportation is a separate challenge itself. Puerto Rico's 3.1 million residents represent 1.0% of the United States population, and yet, Puerto Rico rarely sees a proportional amount of federal funding from large transportation-related grants programs. HTA, for instance, received zero new discretionary grants in FY2020. If Puerto Rico received discretionary grants proportional to its population, agencies would have an additional $1.5 billion available for strategically important, non-State of Good Repair (SOGR) projects over the next 30 years, granted that the Government seek a holistic grantee structure and federal funding strategy. [236]

Moreover, to generate this type of capital spending, the Commonwealth and its corporations will need to maximize investments in Puerto Rico's transportation sector by ensuring access to all available federal and private funding. To achieve this, PRITA should successfully obtain grantee

234 Many U.S. cities, by contrast, have integrated transit authorities so all transit assets across modes coordinate schedules and payment methods, ensuring a seamless experience for customers and efficiency in delivering services. For example, Portland's TriMet system operates bus, light rail, heavy rail, and streetcar services under one network with a single payment system and harmonized schedules

235 "Revenues Used By States For State-Administered Highways – 2018." Office of Highway and Policy Information of the United States Department of Transportation Federal Transit Administration. Last updated January 2020

236 E.g., Capital Investment Grants, Better Utilizing Investments to Leverage Development (BUILD) grants, Infrastructure for Rebuilding America (INFRA) grants, Highways for Life (HfL) grants

status, which is pivotal for maximizing federal funding opportunities and would pave the way to efficient multi-modal coordination.

Puerto Rico should explore further opportunities to leverage private capital via PPP projects. The Government should build on the success of the PR-22 and PR-5 PPP with Metropistas. Since 2011, Metropistas has contributed $1.6 billion for the right to operate and collect tolls on PR-22 and PR-5. These funds have been used to reduce existing debt, improve road quality, and accelerate safety improvements.[237] As a result, 99% of PR-22's pavement is in "good" or "fair" condition, compared to 86% for Puerto Rico's interstate system as a whole.[238] Puerto Rico's PPP Authority should pursue a transportation-focused strategy to attract additional private funding to this sector. Puerto Rico should also leverage non-toll sources of revenue through innovative contract financial structures with its PPP concession-holders.

11.2 The future of Puerto Rico's transportation system

Reorganization of Puerto Rico's transportation assets and responsibilities into entities based on type of asset and/or transportation service

To achieve long-term financial stability and sustainability, Puerto Rico's transportation sector should be reorganized to ensure the best outcomes across different modes of transport. Under this proposed reorganization, HTA would operate as a standard toll road authority and oversee Puerto Rico's toll roads, DTOP would act as a standard department of transportation, with responsibility over non-tolled, non-municipal roads, and PRITA would fulfill its original intention as a unitary transit authority by managing and consolidating all transit assets on the Island (e.g., buses, ferries, Tren Urbano). [239] The Ports Authority would continue to retain control over airports and ports. All relevant agencies should achieve federal grantee status as these new roles and responsibilities require.

Consistent with the reorganization described above, and with the 205(a) letter of January 29, 2021, the 2022 Fiscal Plan increases the HTA operating transfer to cover the full cost of non-toll assets, marking the first step towards the implementation of the Transportation Sector Reform. As a result, over FY2025-FY2051, the 2022 Fiscal Plan includes an average annual operating appropriation of $110 million and capital appropriation of $68 million per year on average. The amount of the annual operating transfer may be reduced in a proportionate amount should federal funding for non-toll assets appropriated to HTA increase.

The HTA operating transfer is intended to be used by HTA solely to fund costs associated to non-toll assets and is not available to be used for any other purposes, including funding costs and projects above and beyond those contemplated in HTA's Fiscal Plan.

237 "Project Profile: Puerto Rico PR-22 and PR-5 Lease." Center for Innovative Finance Support, United States Department of Transportation Federal Transit Administration. Accessed April 21, 2021

238 2028 Puerto Rico Transportation Asset Management Plan, Final Revised as of October 8, 2019

239 There is an existing legislative precedent for this type of effort, as outlined under 23 L.P.R.A. § 11161. The enactment of PRITA was originally intended to integrate mass transit systems under one authority, thus relieving HTA from its responsibilities related to the Tren Urbano transit system

EXHIBIT 69: PROPOSED ALIGNMENT OF ASSET TYPES TO ENTITIES

Non-toll roads authority	Toll roads authority (HTA)	Transit Authority (PRITA)
All non-toll roads	All toll roads	All bus routes
		Tren Urbano
		Ferry

The state of public transit infrastructure and management on the Island deserves special focus. Congestion is increasing in many metropolitan areas, implying additional delays for activities such as commuting. Traffic in congested urban areas is moving at the same speed that it did 100 years ago on horse-drawn carriages.[240] The San Juan metro area has 37,000 more households commuting by private vehicle than would be expected if mass-transit usage matched the U.S. average.[241] As a result of these extra vehicle journeys, San Juan experiences two additional weeks of low air-quality days per year, compared to the U.S. average.[242] Worse yet, Nox and PM2.5 emissions from vehicles are statistically associated with excess deaths in the local population.[243] Hence, a reliable public transit option is extremely valuable to day-to-day activities of local residents. The current system suffers from limited availability, efficiency, route coordination, operational cohesiveness, and accessibility. These issues result in higher congestion and reduced mobility particularly for low-income residents who experience long commutes or are forced to invest in owning a vehicle.

Achieving an integration of the public transit systems and cohesive operations and investment strategies across modes will require the Government assume a proactive role. The Government should establish a unified transport system and although these initiatives would ideally be implemented by an integrated PRITA, their implementation can and should start today.

The transformation into an integrated transit system would mainly rely on the implementation of the following initiatives:

- **Integrate all transit assets under PRITA:** PRITA should be empowered to fulfill its original intention, and act as a unitary transit authority by managing all transit on the Island (e.g., all buses, ferries, Tren Urbano). To accomplish this, the Government should ensure PRITA achieves federal grantee status as necessary to take on these new roles and responsibilities (e.g., FTA grantee status).
- **Recurring allocation for non-toll road maintenance ($50 million):** This fiscal plan contemplates that DTOP should source funding for said maintenance via a combination of

240 The Geography of Transport Systems, 5th Edition, 2020 by Jean-Paul Rodrigue, Claude Comtois, and Brian Slack
241 22% of San Juan metro area residents commute via carpool, walking, bicycling, or public transit, compared to 27% for the U.S. as a whole. Data.IO
242 Low air quality defined as AQI > 100; PR has 19 days per year to U.S. median of 4, as per the Department of Natural and Environmental Resources website
243 EPA estimates excess deaths per ton of emissions at 0.002 for NOx and 0.1 for PM2.5

available Capex funds, agency SRF related to Act 22 of 2000 electronic ticket collections for traffic fines, and funding provided by the IIJA for preventive maintenance.

- **Integrate all non-toll roads under DTOP:** DTOP should assume responsibility for construction and maintenance of non-toll roads from HTA. Doing so would better align sources of funding with entity mandates (i.e., public funds used for publicly-managed roads). This would require relevant personnel and capabilities also shift from HTA to DTOP to ensure DTOP can manage the full portfolio of non-toll roads.

- **Integration of public transit networks:** Existing public transit agencies of the San Juan metropolitan area should integrate their operations to maximize ridership by increasing both the legibility and usefulness of the system.[244] Example initiatives include:

  - Adoption of a single farecard for all transit networks
  - Harmonization of fares and schedules across TU, buses, and ferries
  - Design of a coordinated network of routes to increase accessibility and attractiveness of mass-transit alternatives
  - Redevelop areas surrounding major transit stations to maximize mobility and accessibility to goods and services

- **Coordination of public transit systems with private transport networks:** Public transit agencies should collaborate closely with private transport networks (e.g., Públicos, Transportation Network Companies).[245] By implementing a series of joint initiatives (e.g., fare integration, station re-design, schedule integration, multi-modal trip planning), public agencies and private network operators would be able to achieve increased service quality and increased ridership.

- **Improvement of curb management practices:** Public transit agencies should work with local municipal authorities to promote the adoption of innovative curb management practices (e.g., dynamic pricing for on-street parking, replacing on-street parking with drop-off zones). These practices would incentivize commuters to use public transit rather than private vehicles. They would also generate funds that could improve service quality in the communities they service (e.g., construct more and better bus shelters).

Overall, these initiatives would contribute to the decrease of average commute times for the residents of the San Juan metropolitan area, thus resulting in substantial labor productivity gains and other benefits to residents such as greater mobility, accessibility, and equity, while also reducing harmful vehicle emission, thus increasing the overall quality of life. At the same time, they would enable public transit networks to increase their ridership and their revenue, thus having a smaller need for subsidies from FTA or the Government. These measures should be led by agencies responsible for various assets (HTA, ATM, PRITA) until the transformation of PRITA into a true transit authority is complete, at which point PRITA should become the responsible party across assets.

Implementing these goals will require a concerted effort and continued engagement of a workforce, all collaborating towards a common goal. As an example, asset transfers between agencies should also consider the transfer of responsibilities and recurrent funding, in addition to the assets themselves. In order to apply lessons learned, the Government should perform an

244 Oregon's TriMet system shows how this can work in practice. Like TU, TriMet is a relatively new transit system, having developed its light rail in the 1980s. TriMet consolidates all Portland-area transit assets into a single entity that coordinates route planning, scheduling, and payments. Riders use "Hop Fastpass," a smart fare card, to pay for their travel and can plan multi-modal trips using TriMet's website. This user-friendly system encourages high levels of ridership on the city's light rail and bus systems, saving the city $150 million annually due to reduced traffic congestion. Finally, a major emphasis in TriMet's planning was to use transit to improve land use, leading to $25 billion in new development near light rail stations

245 Públicos and Transportation Network Companies carry ~50 million passengers per year, representing the vast majority (65%) of total transit rides in the San Juan metropolitan area. Puerto Rico Long Range Transportation Plan, December 2013

initial assessment of legal, Federal Transit Administration (FTA) and Transportation Asset Management Plan (TAMP) considerations. Once the assessment is completed, the Government should develop a program foundation to align on priorities, success metrics, measures, and a future state organizational structure (as reflected in *Exhibit 70*) to demonstrate progress. Thereafter, workstreams can be implemented and, along the path of implementation, optimization and innovation can take place after results have been assessed and new workstreams are established. Ultimately, the end goal is for rider experience to improve, and transit ridership and accessibility to increase. As part of the reorganization of assets and responsibilities into mode-specific entities, the Commonwealth should ensure that the entities meet all requirements to obtain federal grantee status.

Create an overarching Transportation Policy Board to guide multi-modal transportation strategy across the Island

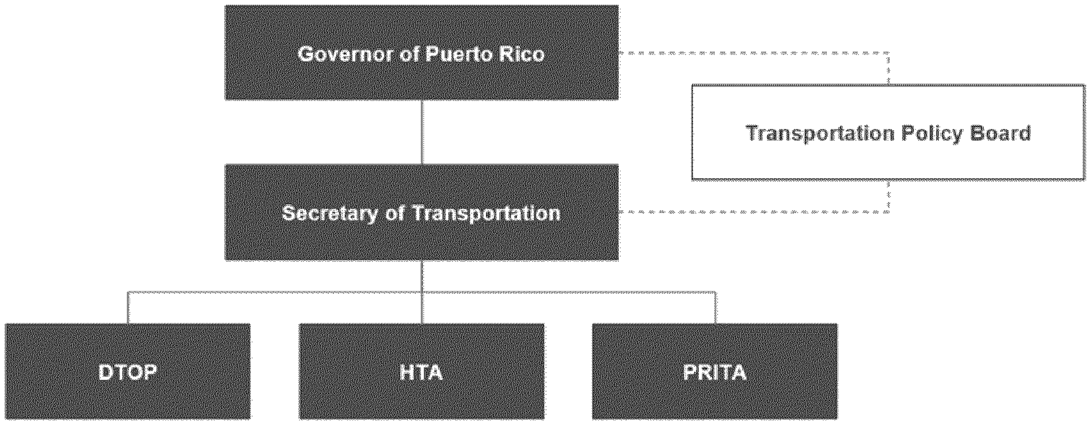
The Commonwealth should create an independent Transportation Policy Board ("TPB") to set and execute an Island-wide transportation strategy. The TPB would be empowered to, at a minimum:

- Set long-term, cross-modal, strategic plans and investment priorities applicable to all transportation investments on the Island
- Regularly review and report on execution against strategic plans, providing transparency and guidance on any corrective steps required
- Coordinate the federal grants strategy for all transportation entities to harmonize the process and maximize opportunity and availability of federal funds
- Develop and oversee the use of objective frameworks for project selection and project prioritization processes
- Provide oversight and compliance check to both the pre-construction and capital delivery activities

The proposed TPB would provide oversight and guidance for the transportation entities within the Government but would not seek to burden them with new regulations, leaving implementation of long-term strategic plans to each relevant entity.

The TPB should be comprised of 3 to 5 members, appointed by the Governor with the advice and consent of the Senate. Candidates should be selected from lists developed by professional recruitment firms and should comply with minimum knowledge and expertise requirements. To insulate TPB members from political pressure and ensure continuity and consistency in long-term planning, initial TPB member terms should be staggered with subsequent appointments being for a term of no less than five years. TPB members should also not be subject to at will removal and should only be removed for cause.

EXHIBIT 70: PROPOSED RELATIONSHIP BETWEEN TRANSPORTATION POLICY BOARD AND OTHER TRANSPORTATION ENTITIES



Improve performance management through performance-based contracting and concessions with the private sector

Puerto Rico should better integrate private operators into public systems. At present, *públicos* and transportation network companies ("TNC") operate broadly across Puerto Rico to satisfy excess demand for transportation beyond that provided by the public sector. There is limited coordination, however, between these private operators and the public networks. Similarly, private contractors execute much of the Island's transportation construction without providing visibility into individual project performance. If managed well, the private sector can be a key partner in both operating transit systems and delivering capital projects efficiently and cost-effectively. As an example, the Maritime Transportation Services PPP with HMS Ferries LLC ("HMS") is structured such that HMS prioritizes improved service quality and efficiency, thereby aligning the interests of private operators with those of Puerto Rico's businesses and residents, who demand access to reliable and safe transportation services. Moreover, the management of private sector players is critical for transportation agencies to ensure that they can maximize available funds and mitigate risks, as shown through the improvements seen in PR-22 road condition as a result of the Metropistas PPP.[246] Further, Puerto Rico's transportation entities can get more value from their private-sector vendors through innovative contract design and improved vendor supervision. Moreover, PPPs are an additional tool to attract private investment.

Of the ten projects currently under consideration by the PPP Authority, none impact transportation.[247] Greater coordination between transportation sector entities and the PPP Authority can enhance the potential of private funds being leveraged for transportation, specifically by identifying, developing, and structuring attractive projects, such as the long-term concession of the remaining toll roads. If Puerto Rico achieved the same amount of PPP investment per capita as Virginia, it would receive an influx of $3.7 billion in private investment.[248]

In addition, the Government, and more specifically, relevant transportation entities, should systematically identify ancillary revenue opportunities (e.g., advertising, creating service plazas, renting out real estate to retailers). If Puerto Rico achieved a level of non-toll revenue similar to mainland peers such as Florida's Turnpike Enterprise and the North Texas Tollway Authority,

246 At present, the Acts governing PRITA and HTA provide for the implementation of this measure per P.R. Laws tit. 9, § 2004a
247 Puerto Rico Public Private Partnerships Authority website
248 $10.2 billion in new build PPP at 8.5 million people in Virginia is about $1200 per person. $1200 per person for 3.2 million people in Puerto Rico represents $3.8 billion, and Puerto Rico currently has $127 million in new build PPP projects, per the Center for Innovative Finance Support, United States Department of Transportation Federal Transit Administration

HTA would realize an incremental $12.7 million in annual revenues.[249] As with PPP funding, this best-in-class example should serve not as a specific target, but as an indication of what is possible.

Maximize funding by ensuring all relevant entities have federal grantee status, adopting a more comprehensive federal grants strategy, and attracting private capital

The Government needs to maximize investments in Puerto Rico's transportation sector by ensuring access to all available federal and private funding are deployed. To achieve this, PRITA should successfully complete the FTA's process to obtain grantee status, which is pivotal for maximizing federal funding opportunities, reorganization of assets and management responsibilities, and would pave the way to efficient multi-modal coordination.

Puerto Rico would benefit from a holistic strategy to maximize funding flowing into its transportation network. The TPB would be well-situated to coordinate these efforts across transportation entities. By establishing an Island-wide federal funding strategy, attracting more private investment, and increasing ancillary revenue, Puerto Rico can improve the transportation sector's financial health and invest more in-service delivery to public transportation users.[250]

11.3 Implementation of the transportation system reform

To meet the requirements outlined above, the below milestones should be accomplished:[251]

249The Florida Turnpike Authority and the North Texas Tollway Authority each bring in ancillary revenue equivalent to about 3-5% toll revenues. The NJTA is particularly successful in collecting non-toll revenue, and they regularly renegotiate with private operators (including toll collectors, gas stations, and service plazas) at the end of every contract. The NJTA successfully leverages the lucrative nature of these concession agreements to build performance incentives into contracts and pursue profit-sharing agreements between vendors and the agency. In 2019, non-toll revenues were equal to 15.5% of NJTA's toll revenues and included cellular tower rentals, park-and-ride facilities, rent, towing fees, property sales, billboard commissions, video feed licensing, an Arts Center, and other investments, compared to 5% in Puerto Rico. $121 million in toll fares * 15.5% = $16.2 million; $16.2 million - $6 million in "other income" = ~$10 million. Per the New Jersey Turnpike Authority 2021 Annual Budget in Brief; the New Jersey Turnpike Revenue Bond Resolution Certification 713 (c) dated October 14, 2020; and the HTA FY2020 Fiscal Plan

250 At present, the Center of Federal Opportunities (under the Office of Management and Budget) is tasked with providing technical assistance to the Government of Puerto Rico and its related agencies in order to obtain and maximize federal grants. This recommendation requires that the Center of Federal Opportunities fulfill its mandate by supporting transportation authorities to secure further public funding

251 In the interest of ensuring compliance, the Oversight Board reserves the right to tie a portion of DTOP's and PRITA's budgets to the successful implementation of certain milestones (TBD), and, as such, freeze or clawback funds should the Government fail to implement its milestones

EXHIBIT 71: IMPLEMENTATION TIMELINE FOR THE TRANSPORTATION SECTOR REORGANIZATION

Municipality	Action item	Owner	Deadline
Allocate transportation assets into mode-specific entities	• Develop a program foundation to align on priorities, success metrics, measures and future state organizational structure to demonstrate progress	• PRITA, HTA, DTOP, AAFAF	• Delayed: October 1, 2021
	• Organize assets, roles and responsibilities within existing entities into asset-class groupings	• PRITA, HTA, DTOP, AAFAF	• Delayed: October 1, 2021
	• Identify legal and other obstacles to asset reorganization and present to FOMB	• PRITA, HTA, DTOP, AAFAF	• Delayed: October 1, 2021
	• Segregate costs/revenues associated to tolled, non-tolled roads and transit assets (i.e. labor, opex, etc.) and assign by asset class	• PRITA, HTA, DTOP, AAFAF	• Delayed: October 1, 2021
	• Amend/Update entity organizational structures to accommodate restructured roles and responsibilities	• PRITA, HTA, DTOP, AAFAF	• Delayed: November 15, 2021
	• Transfer personnel and resources (as applicable) to the relevant entities	• PRITA, HTA, DTOP, AAFAF	• June 30, 2022
	• Finalize transfer of roles and responsibilities for non-tolled roads from HTA to DTOP	• PRITA, HTA, DTOP, AAFAF	• June 30, 2023
Re-allocate transit assets to PRITA	• Perform initial assessment of legal, Federal Transit Administration (FTA) and Transportation Asset Management Plan (TAMP) considerations	• PRITA, HTA, AAFAF	• Completed
	• Specify, procure, and implement required system to operate transit assets (e.g., IT infrastructure)	• PRITA	• April 29, 2022
	• Achieve minimum financial, legal, and technical capacity to effectively manage FTA funds	• PRITA, AAFAF	• Completed
	• Submit request to FTA for Grantee Status Designation	• PRITA, AAFAF	• May 27, 2022
	• Achieve FTA grantee1	• PRITA	• December 30, 2022
	• Finalize transfer of all transit assets to PRITA	• PRITA,HTA	• June 30, 2023
Transit Service Integration and Coordination	• Enhance governance structure of PRITA by ensuring subject matter expertise is present at all levels of the organization, including top level management and Board of Directors	• PRITA	• Delayed: December 31, 2021
	• Adopt a single farecard for all public transit networks	• HTA, ATM, PRITA	• Delayed : December 31, 2021
	• Harmonize fares and schedules across TU, buses and ferries	• HTA, ATM, PRITA	• Delayed : December 31, 2021
	• Pool data resources in order to conduct common research on future initiatives	• HTA, ATM, PRITA	• Delayed : December 31, 2021
	• Design a coordinated network of public transit routes	• PRITA	• March 31, 2022
	• Begin redesigning the physical landscape around transit stations to encourage pedestrian traffic and promote integration with the stations	• PRITA	• April 30, 2022
Leverage private-sector services for improved efficiency	• Design a series of initiatives that could be implemented in collaboration with private transport networks (e.g. Públicos)	• PRITA	• Delayed: December 31, 2021
	• Develop a strategy for communicating with private network operators	• PRITA	• Delayed: December 31, 2021
Identify and implement innovative transportation initiatives	• Identify curb management practices and other practices that disincentivize the use of mass transit infrastructure	• PRITA	• March 1, 2022
	• Introduce new legal/regulatory framework proposals to address these practices and promote greater use of transit systems	• PRITA	• June 30, 2022
Establish Transportation Policy Board or analogous entity[2]	• Establish an independent advisory board responsible for setting long term holistic strategic plans and oversight of investment prioritization processes to advance transportation from an island-wide perspective	• AAFAF	• Delayed: November 1, 2021
	• Establish processes and guidelines for reviewing and reporting on the execution of strategic plans and providing transparency and guidance on corrective action	• Transportation Policy Board • (TPB)	• Delayed: December 1, 2021
	• Establish processes and guidelines for coordinating the federal grants strategy for all transportation entities to harmonize the process and maximize availability of federal funds	• TPB	• Delayed: December 1, 2021
	• Assess and develop mechanisms to lower traffic congestion and increase accessibility to transit	• TPB	• Delayed: December 1, 2021

1 This is dependent on FTA review and approval process, which is outside of the Commonwealth's control.
2 The proposed Transportation Policy Board would have to be created by legislation or by modifying the existing legislative mandate that established an Advisory Board on Transportation

Part IV. Investments to revitalize Puerto Rico

As Puerto Rico aims to navigate through the COVID-19 pandemic and rebuild both economically and fiscally, the 2022 Fiscal Plan builds on what has been a multi-year strategic investment program to improve government services, increase competitiveness, and create the conditions for growth and development that can benefit all residents.

Multiple Fiscal Plans have called for investments in front-line services that residents depend on for health, safety, and economic opportunity. This has included investments to support the Government, as well as individuals and businesses, in combating the COVID-19 pandemic. The 2022 Fiscal Plan preserves investments included in prior Fiscal Plans and supplements them through incremental investments targeted at transforming financial management and government efficiency (e.g., timely audited financial statement, budget best practices, CSR, and procurement included in the Financial Management Agenda) and creating conditions for growth (i.e., human capital / education, economic development, infrastructure, and ease of doing business). These incremental investments have been made possible by revenue growth resulting and the General Funds freed up from CMS' recent re-interpretation of Puerto Rico's non-CHIP Medicaid funding (which eliminated the fiscal "cliff").

The Government must deploy these funds efficiently and effectively to maximize their benefit for the Island's people and economy.

These investments can be categorized as follows.

Investments in operational capacity

In addition to the 2021 Fiscal Plan's $83 million Uniform Remuneration Plan (URP), which will establish a uniform role and pay structure for certain Central Government employees, and a comprehensive plan for CSR, the Fiscal Plan includes the below initiatives aimed at investing in operational capacity to improve government service delivery:

- **CSR-related initiatives**
  - **Uniform Remuneration Plan ("URP") budget increase**: The Oversight Board estimates that the Civil Service Reform Pilot will cost $11.5 million in FY2022, which includes $1.5 million in implementation costs. In addition to this amount, the 2021 Fiscal Plan had allocated $83 million for the implementation of the new URP. After conducting a thorough salary benchmarking analysis during the CSR pilot in 2021 using local market data for all pilot employees, the Oversight Board found that adjusting employee salaries to local competitive rates would cost an estimated 20% more than the URP budget request submitted by the Government last year. Therefore, to ensure enough funds are available to bring all government positions to market rates, the 2022 Fiscal Plan should increase the CSR budget by 20%, or $16.6 million more than what was initially allocated in the 2021 fiscal plan.
  - **CSR new positions:** As part of the CSR Pilot, the Government has been working in close collaboration with the Oversight Board to identify critically needed technical positions in key areas of Government, including finance, accounting, procurement, human resources, and technology. As such, the 2022 Fiscal Plan includes an additional $33 million annually, increasing by inflation, in the CSR budget so that funds can be available to recruit these crucial positions across the government. The recruitment of these positions would need to go through the new streamlined and digitalized recruitment system being developed through the CSR Pilot.
- **Investment in non-URP central government employees:** The CSR scope only covers entities under Act 8-2017 (Human Resources Administration and Transformation Act) and

employees that are part of OATRH's Uniform Renumeration Plan (URP), representing 25% of central government employees. PRDE employees (including teachers), correction officers, firefighters, and personnel from the judicial branch are all outside of this initiative. Since all these employees also face outdated compensation structures, they should be given the opportunity to participate in salary adjustments that bring pay closer to competitive levels. The 2022 Fiscal Plan includes $170 million to increase salaries of Government employees that are not part of the URP in the CSR.

- **Increase in teachers and other PRDE employees' salaries and salaries scales:** In FY2021, the average teacher salary of $28,100 in PRDE was lower than in all other U.S. jurisdictions. PRDE has also experienced challenges building its educational leadership pipeline and supporting staff through a clear career progression. The 2022 Fiscal Plan includes a recurring annual allocation of $187 million to increase salaries for all PRDE employees (including teachers) beginning in FY2023. Investing in PRDE salaries will support priorities that are aligned with the department's strategic goals and will help address inequities in compensation within employee categories. All PRDE teachers (~26.8k) would receive a $235 per month salary increase effective July 1, 2022. Additionally, teachers would receive another $235 per month based on successful completion of milestones effective January 1, 2023. All PRDE's directors, facilitators, and director supervisors (~1.1k) would receive a 10% salary increase effective July 1, 2022. Additionally, this group would receive another 5% based on successful completion of milestones effective January 1, 2023. PRDE's direct student support employees and administrative support employees (~8.8k and ~8.0k respectively) would receive a 10% and 5% salary increase respectively effective July 1, 2022. For more information, see *Section 14.3*.

- **Increase in firefighter salaries:** The 2022 Fiscal Plan provides for an incremental $1,500 salary increase that will be sourced through the funds identified in Act 181-2019, as amended, representing no incremental impact to the surplus. An increase was implemented in FY2020 representing $2.737 million and an additional increase was implemented in FY2021 representing $2.65 million, bringing the total increase to $4,500, a 17% increase over the average salary. More information is discussed in *Section 14.5*.

- **Increase in correctional officer salaries:** The 2022 Fiscal Plan provides for a salary increase of 15% tied to milestones, with a base increase of 10% effective July 1, 2022 and the remaining 5% provided upon successful implementation of the time and attendance initiative. More information is discussed in *Section 14.6*.

- **Increase in judicial branch salaries:** The 2022 Fiscal Plan provides for $11 million in incremental funding, starting in FY2023 to cover 7% salary increases for all employees of the General Courts of Justice (except judges). Further information is discussed in *Section 14.10*.

- **Increase in salaries to UPR Medical Residents:** The 2022 Fiscal Plan will provide for ~$2.5 million to allocate a 20% salary increase to all UPR Medical Residents. These salaries had not been revised since 2003 and given the need of health personnel and the historical impact the residents have through the assistance in the well-being of patients and the development of the programs represented the Oversight Board agreed to this incremental funding. The salary increase will also be an incentive to retain students on the Island. An additional $500 thousand will be allocated to fund the reaccreditation licenses needed as part of the residents' programs within UPR.

- **Increase in nurse salaries:** In addition to the above investments, and to ensure the retention and fair compensation of nurses on the Island, the Oversight Board is supportive of improving salaries for nurses not already covered by the URP budget increase. The Oversight Board will work with the Government to identify an appropriate source of

funding, if necessary and supports the Government's prior position that this increase be covered through increased federal funds or within the existing budget appropriations.

- **Funding for the Comprehensive Cancer Center:** The 2022 Fiscal Plan provides for $10 million in incremental funding for a period of 7 years, starting in FY2023 to support cancer research initiatives that will allow the Comprehensive Cancer Center of Puerto Rico to obtain formal federal designation of Cancer Center, which will in turn provide access to additional federal funds. This funding is contingent upon the Cancer Center completing the following milestones:
  - The Cancer Center must develop and implement an integrated campaign through advertising, digital media, and public relations to promote prevention, early detection and specialized treatment health services programs offered at the Hospital by June 30, 2022.
  - The Cancer Center must implement the second phase of the Electronic Health Records which involves integrating the Financial Modules by December 31, 2022; and participate in the 340B Drug Pricing Program by obtaining Certifications to purchase prescription drugs at lower cost by June 30, 2024.
  - Once the respective milestones are achieved, the Cancer Center must provide a formal notice and submit supporting data corroborating such achievement for the Oversight Board's review.
- **Increase capacity of oversight agencies:** Oversight agencies play a pivotal role in improving governance and fostering fiscal responsibility in the public sector. Independent oversight institutions exercise oversight over the democratic functioning and integrity of the executive and state administration. To perform their functions each institution requires a high degree of independence from the government of the day and adequate resourcing. To ensure these integrity institutions have the resources they need to perform all their statutory and constitutional functions, the 2022 Fiscal Plan includes $6 million for salary adjustments and funding for new positions in critical areas. Employees at these agencies would get 5% salary increase ($2.5 million annually) effective July 1, 2022 and $3.5 million for recruitment of new positions. New positions will be subject to agency implementation of new employee evaluation system and recruitment platform that will be developed through the CSR rollout. Below are the oversight entities that are part of this investment:
  - Institute of Statistics
  - Office of the Comptroller of Puerto Rico
  - Office of the Electoral Comptroller
  - Office of Government Ethics
  - Office of Inspector General
  - Special Independent Prosecutor's Panel
- **Christmas bonus guarantee:** The 2021 and prior Fiscal Plans did not include an allocation for the payment of Christmas bonuses. As a result, the Government had funded the payment of the bonus through identified savings and underspend. The 2022 Fiscal Plan includes a recurring annual allocation of $40 million to provide government employees a bonus of $600 per employee beginning in FY2023.
- **Funding for third party case managers:** The 2022 Fiscal Plan provides for $7.5 million in FY2023 incremental funding for a period of 1 year to support the increase in caseload in the Family and Children Administration. These funds will provide families an assigned social worker that will render needed services. This appropriation will be included under the custody

of the Office of Management and Budget and is contingent to the Family and Children Administration providing the Oversight Board documentation that supports the $7.5 million estimate including amount of cases per contractor and cost per hour.

Investments in obligations to current and future retirees

In addition to the Plan of Adjustment, which provides a mechanism to set aside resources to fund the Commonwealth's pension obligations, the Oversight Board has approved the below initiatives aimed at prioritizing obligations to current and future retirees

- **Police officer retirement:** Public safety is essential for the quality of life of every Puerto Rican and our police officers play a critical role in ensuring our security and well-being. The Oversight Board has supported and continues to support Puerto Rico's police officers and their critical service to protect and serve the Island's residents and businesses.

  Prior to 2017, officers hired under the promises of Act 1 or Act 447 of ERS relied on the defined benefit plan as their sole source of retirement income. When these benefits were frozen in 2013, the effect on officers varied based on the age / service of the officers. The Oversight Board has recognized that reliance on this single source of income, especially for those officers in their mid-career, is insufficient and pushed for both the full implementation of the Act 106 Defined Contribution accounts (legislated in 2017 and fully implemented in June 2020 for police and also most other Government employees), as well as participation of police in United States Social Security in January 2020. As a result, these police officers now have multiple sources of income which will be available to them in retirement.

  Act 447 and Act 1 police officers currently approaching retirement generally had their defined benefit plan frozen earlier in their careers than those that have already retired and therefore were more impacted by the freeze. Yet, active police officers closer to retirement have had limited time to save for retirement in their Act 106 accounts or through Social Security than younger officers. The Oversight Board acknowledges the resulting increasingly difficult retirement situation for active Act 447 and Act 1 police officers due to the historical lack of pension funding, lack of prior Social Security enrollments, and a mandatory retirement age. Therefore, the 2022 Fiscal Plan segregates over $850 million to be spent over the next 15 years, including over $500 million by the end of FY2023, to allocate towards these police officers' Act 106 Defined Contribution accounts. This investment varies based on the age and service of these officers, to recognize differences in how long they earned benefits through each retirement program, with the goal of bringing the average total retirement income from all sources (i.e., ERS, Act 106 Defined Contribution accounts, and Social Security) to 50% of the compensation received at the time of retirement. The contributions are detailed in *Exhibit 72*.

EXHIBIT 72: DEFINED CONTRIBUTIONS FOR ELIGIBLE POLICE OFFICERS

Contribution details

- **Total Contribution = Base Contribution + Special Contribution**
- Special Contribution is $30,000 in FY2022 and FY2023[1]
- Applies to active Act 447 / Act 1 officers hired prior to January 1, 2000

Base Annual Contribution and total incremental contributions over officers' career to mandatory retirement age

Period when officer reaches later of age 58 or 30 years of service	# of base contributions	Base annual contribution	Total base + special contributions	Assuming officer retirement in
Before 6/30/22	3	$17,500	**$112,500**	FY ending 6/30/24
7/1/22 – 6/30/23	4	$17,500	**$130,000**	FY ending 6/30/25
7/1/23 – 6/30/24	4	$17,500	**$130,000**	FY ending 6/30/25
7/1/24 – 6/30/25	4	$17,500	**$130,000**	FY ending 6/30/25
7/1/25 – 6/30/26	5	$16,000	**$140,000**	FY ending 6/30/26
7/1/26 – 6/30/27	6	$14,500	**$147,000**	FY ending 6/30/27
7/1/27 – 6/30/28	7	$13,000	**$151,000**	FY ending 6/30/28
7/1/28 – 6/30/29	8	$11,500	**$152,000**	FY ending 6/30/29
7/1/29 – 6/30/30	9	$10,000	**$150,000**	FY ending 6/30/30
7/1/30 – 6/30/31	10	$9,000	**$150,000**	FY ending 6/30/31
7/1/31 – 6/30/32	11	$8,000	**$148,000**	FY ending 6/30/32
7/1/32 – 6/30/33	12	$7,000	**$144,000**	FY ending 6/30/33
7/1/33 – 6/30/34	13	$6,000	**$138,000**	FY ending 6/30/34
7/1/34 – 6/30/35	14	$5,000	**$130,000**	FY ending 6/30/35
7/1/35 – 6/30/36	15	$4,500	**$127,500**	FY ending 6/30/36
7/1/36 – 6/30/37	16	$4,000	**$124,000**	FY ending 6/30/37
After 6/30/37	17+	$3,500	**$119,500 or more**	6/30 of FY in which they reach age 58 and 30 years of service

Special provisions

- **Accelerated contributions for those near mandatory retirement:** Officers unable to work beyond 6/30/22 receive acceleration of $30,000 special contribution into FY2022
- **Current retirees:** Sworn officers who retired after Act 81 enactment in August 2020 who were forced to retire by mandatory retirement receive $77,500 in FY2022.

1 Subject to vesting requirement

- The fiscal plan also includes contributions based on the following additional considerations:
  - **Accelerated contributions for those near mandatory retirement:** The 2022 Fiscal Plan includes funding so that officers unable to work beyond June 30, 2022, either because they have applied for an extension and been denied or have exhausted the work extensions currently available, to receive acceleration of $30,000 special contribution into Fiscal Year 22, for a total of $77,500 each.
  - **Current retirees:** The 2022 Fiscal Plan includes funding so that sworn officers who retired after Act 81 enactment in August 2020 who were forced to retire by mandatory retirement also receive $77,500 in FY2022.
- **Plan Vital for current and future retired police officers:** The Oversight Board and the Government agree on the need to provide health insurance to those who protected the Island's population in their years of retirement prior to their qualification for Medicare. As such, the 2022 Fiscal Plan includes an initiative to support the medical costs that will be endured by retired police officers from the time of their retirement through their Medicare qualification. The average annual cost of this incremental spending initiative from FY2022 to FY2051 is ~$23 million. These costs are estimated to be $8 million in FY2023, $10 million in FY2024, and rise steadily thereafter before reaching a peak of $35 million in FY2038. This initiative will ensure that police officers have access to the Vital program in critical years after service to the Island. The initiative includes both currently retired police officers, as well as currently active police officers upon their expected retirement. It should be noted that police officers that retired after Act 3-2013 became effective are not entitled to the $100 per month contribution for health insurance. Recognizing that ASES will need to expand Medicaid benefits in order to maximize the new Medicaid federal funding cap, the Board expects this incremental spending initiative to be partially offset by the increased federal funds as part of

the planned Puerto Rico Medicaid Program expansion (see *Chapter 15* for more details on the Medicaid program).

- **Symphonic Orchestra Pension Fund:** The Puerto Rico Symphonic Orchestra Corporation ("PRSOC") is a public corporation organized under Act No. 44 of May 12, 1980, as a subsidiary of the Musical Arts Corporation. The PRSO sponsors a single employer defined benefit pension plan ("PRSOC Retirement Plan") funded through member and employer contributions that are not tied to the actuarially determined levels necessary to fully fund the plan. As a result of years of underfunding, as of August 15, 2019, the PRSOC Retirement Plan was $20 million underfunded with a funded percentage of 14.43% and is projected to no longer have sufficient funds to pay benefits by the end of FY 2025. As such, the 2022 Fiscal Plan provides ~$20 million in incremental funding ($2 million on an annual basis through FY 2032) aimed at supporting the fulfillment of existing promises to current and future retirees under the PRSOC Retirement Plan are met, while PRSOC continues to make its annual contributions. The incremental funding included in the 2022 Fiscal Plan is subject to implementation of a freeze of benefit accruals, closing of the plan and implementation of a defined contribution plan for its members, consistent with the treatment of all current Government employees provided through Act 106-2017.

Investments in Financial Management Agenda

The Government must establish fiscal responsibility through the implementation of a properly structured and empowered OCFO that pursues financial reporting, resource management, and planning objectives. Only after the OCFO has been successfully established and a minimum level of resources has been set aside for pension obligations shall the below initiatives be prioritized:

- **Office of the CFO:** In addition to the above investments, the Oversight Board strongly endorses the creation of a centralized Office of the CFO ("OCFO") that will be responsible for a variety of reforms that will ensure the most efficient financial stewardship of the Island's resources. A properly structured and empowered OCFO constitutes an important organizing entity for the efficient management and control of financial reporting, resource management, and planning objectives. The Oversight Board approves $500,000 for the remainder of FY 2022 to support the implementation of financial management initiatives and will approve $2,550,000 for FY2023 contingent on the OCFO delivering by May 30, 2022 detailed action plans for the following initiatives included in the Financial Management Agenda: Timely Audited Financial Statements, Budget Best Practices, and Federal Funds Management. Further information on this organization and investment requirements is detailed in *Section 13.2.1* below.

- **Non-Partisan Legislative Scoring:** An additional allocation of $3 million annually is available for the creation of a non-partisan office within the Legislative Assembly to produce fiscal analysis and scoring of legislative measures, similar to the function of the Congressional Budget Office in Washington, DC. This office will serve both the House and Senate.

Immediate response to COVID-19

In the wake of the COVID-19 pandemic, the Oversight Board worked closely with the Government to act decisively to mitigate the effects of the sudden economic shock caused by the COVID-19 pandemic. These initial investments totaled $787 million ($657 million General Fund and $130 million Federal Funds) and provided hazard pay for front-line workers, direct payments to residents, essential supplies and equipment for public safety, materials for distance learning in the public education system, and funding for COVID-19 related research and development in UPR's Medical Sciences Department. AAFAF reported that $521 million of the $657 million in General Fund have been disbursed as of January 2022.

Investments in frontline services and agency operations

The 2022 Fiscal Plan also continues or makes additional investments to support frontline services and to enhance agency operations. These include ~$900 million to bolstering healthcare infrastructure and services (e.g., capital improvements at public hospitals, public hospital IT, telehealth infrastructure, opioid treatments, education loan forgiveness for rural healthcare professionals, and funds to maintain nurse and health professional staffing levels), ~$880 million for public safety (e.g., police salary raises, police equipment and capital, funds to hire Forensics Institute personnel, and funds for a DCR assessment of facility footprint and consolidation potential), ~$640 million for educational outcomes (e.g., funds for school psychologists and nurses, better transportation for students, teacher time and attendance analysis, needs based scholarships, incentives for student attendance reporting, digitization, teacher and director salary raises, and innovation), and ~$550 million for new Government programs and to enhance agency operations (e.g., funds to support ERP implementation, hire staff to finalize centralized procurement initiatives, accelerate municipal service consolidation, create transparency into economic incentives, hire special prosecutors and agents for the Specialized Domestic Violence, Sexual Crimes and Child Abuse units, and enable the fourth phase of the "Abriendo Caminos" infrastructure improvement program and for regular maintenance programs for the road infrastructure, etc.).

Strengthening the technology sector

To ensure Puerto Rico can compete in a global economy, the 2022 Fiscal Plan includes critical funds for technology infrastructure and workforce development programs. These include $400 million to boost universal broadband access through incentives to expanded broadband roll out and the provision of faster service, and $50 million to establish a 21st Century Technical and Business Education Fund, designed to develop technical and business skills that are aligned with the needs of the 21st century economy.

Further information on these investments is detailed in *Chapter 15*.

Cultivating a high-performing public workforce in Puerto Rico

To support the Commonwealth Government's efforts to modernize and strengthen its human resource management capabilities and be better positioned to provide quality services to Puerto Rico's residents for years to come, the 2022 Fiscal Plan includes ~$2.9 billion for a comprehensive CSR. The reform initiative in progress aims to: align the Government's workforce capabilities and organizational structures to better meet mission objectives; update compensation structures in FY 2023 to market rates, pending compliance with reform milestones that includes the time and attendance reporting project; and enable the Government to better recruit and retain the right talent through optimized human resources technology processes, and procedures for recruitment and employee evaluations.

A pilot-then-scale implementation approach was adopted to see reform solutions in action at a smaller scale and allow for changes and iterations as required prior to a larger-scale roll out. In July 2021, the Oversight Board and the Government initiated the CSR Pilot with two central agencies of the Commonwealth's public sector, the Office of Management and Budget (OMB) and the Department of Treasury (Hacienda), focusing on core finance and accounting roles and functions. Significant progress has been made so far thanks to ongoing collaborative efforts between the government and the Oversight Board staff. As a result of these efforts, new organizational structures were developed and are being implemented for OMB and Hacienda's finance and accounting divisions, and new frameworks for employee evaluation and recruitment processes were co-designed with the Office of the Administration and Transformation of Human Resources (OATRH). The Oversight Board will continue to work with the Government to ensure the success of this pilot as well as its scaling across other agencies and functions.

Further information on these investments is detailed in *Chapter 12*.

Chapter 12. Cultivating a high-performing public workforce

12.1 The urgent need for CSR in Puerto Rico

The civil service is the backbone of good governance and quality public service provision. Having dynamic, competent, motivated, and high-performing civil servants is critically important as they have a direct bearing on the content and implementation of public policies and reforms, translating executive and legislative directives and regulations into tangible daily actions. For this reason, the sustainability and quality of public services requires a comprehensive CSR to resolve the underlying problems and challenges of human resources management in the Government. Only by achieving this kind of reform will the Government be able to change practices that prevent Puerto Rico's Government from effectively fulfilling the most fundamental and emerging needs of its residents.

Act 8-2017 (formally known as the "Government of Puerto Rico Human Resources Administration and Transformation Act") and Regulation 8992 (formally known as the "Regulation for Implementation of Act 8-2017") were adopted by the Puerto Rico Government with the intention, among others, of achieving best practices in public administration. However, based on the evidence gathered by Oversight Board, the reforms have fallen short, as they have covered too little ground, and allowed much of the existing civil service challenges to remain intact[252]. One major flaw of Act 8-2017 was the underlying assumption that centralizing certain operational structure of human resource management would lead to a transformation of the civil service. Another aspect where Act 8-2017 fell short is that it covered a small portion of government employees because a significant number of government entities are exempted from its application.

Taking an overly narrow approach in Puerto Rico, given the current state of the Commonwealth's human resource management, will likely not resolve the structural and protracted problems hindering the civil service. True and transformative reform must address the multifaceted problems adversely impacting the performance and professionalism of civil servants, like political patronage, inadequate training and career path opportunities leading to an unmotivated talent pool, poor employee job experience and satisfaction, lack of leadership, staff accountability, and deficient strategic management.

In May 2019, the Government of Puerto Rico submitted a Uniform Classification and Remuneration Plan (URP) to establish a uniform role and pay structure for its employees. The plan included career government employees and positions of trust across 65 agencies subject to the jurisdiction of the Government's central personnel management agency, the Office of the Administration and Transformation of Human Resources (OATRH, by its Spanish acronym). The plan proposed an annual investment of $146 million to provide compensation increases for 13,198 employees in these agencies.

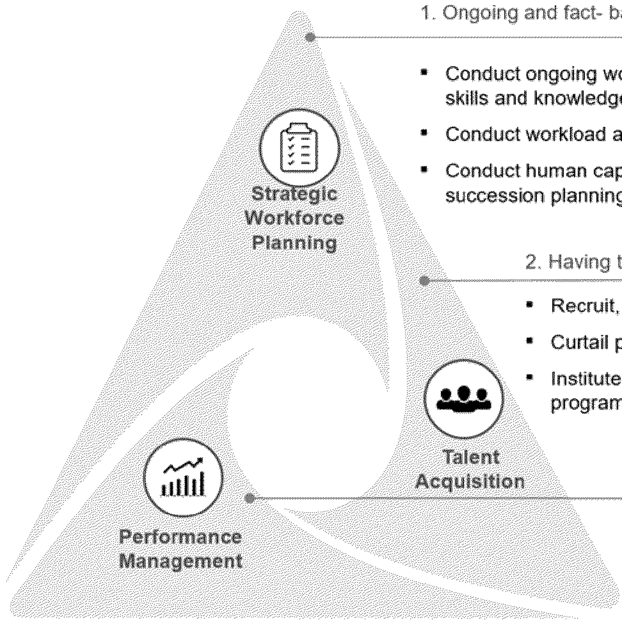
Although a worthy effort to ensure consistency and standardization across government agencies, the Uniform Classification and Compensation Plan falls short in addressing the perennial structural problems in human resource management (HRM) in the Commonwealth's civil service. A recent examination of the existing human resources management structure in the Commonwealth Government conducted by the Oversight Board revealed many deficiencies in areas such as strategic human capital planning, recruitment, selection, talent management, performance management and evaluations, and succession planning.[253] Therefore, the

[252] Gonzalez, Simuell et al. "Policy Paper: Civil Service Reform." Puerto Rico Federal Oversight Management Board website. Accessed April 21, 2021

[253] Ibid.

Government should consider a broader and more integrated approach to CSR, as shown in *Exhibit 73*.

EXHIBIT 73: CSR GOALS FOR THE COMMONWEALTH



1. Ongoing and fact- based workforce planning

- Conduct ongoing workforce analysis: Evaluate roles and responsibilities, skills and knowledge, supervisory ratios and staffing levels.
- Conduct workload analysis: Analyze activity/workload.
- Conduct human capital planning activities, like attrition forecasting and succession planning.

2. Having the right workforce

- Recruit, select, develop, and retain top talent.
- Curtail political cronyism and managerial personalism.
- Institute leadership and employee training & development programs to keep pace with emerging needs and innovations.

3. Promoting a performance culture

- Develop modern, objective, credible and robust employee performance management system.
- Introduce time and attendance system throughout the central government.

12.2 The importance of adopting a strategic approach to CSR

There is no universal blueprint for successful CSR. Changes in public sector personnel management should be tailored to the local context and conditions. Some governments adopt a comprehensive, government-wide approach to CSR, fully revamping the civil service system, while others follow a more incrementalistic approach, targeting more narrow areas of human resource management. For example, Title VI Section 601 (i.e., Research programs and demonstration projects) of the Civil Service Reform Act of 1978 allowed "federal agencies to experiment, subject to congressional oversight, with new and different personnel management concepts in controlled situations to achieve more efficient management of the Government's human resources and greater productivity in the delivery of service to the public." Allowing federal agencies this flexibility to innovate on personnel management systems has proven useful with many federal agencies making their demonstration projects permanent. Further, it will be difficult to push CSR forward that have a positive lasting impact in Puerto Rico without strong executive and legislative backing and strategic engagement with key stakeholders.

Given the amount of administrative and political challenges with reform in Puerto Rico, a gradual and more narrowed approach, focused on pressing human capital issues within key functions of government might be more practical. Furthermore, adopting a pilot-then-scale implementation approach will enable government leadership to see reforms in action and allow for policy changes and new programs to be adapted and tweaked as required prior to a larger-scale implementation and roll out. It also allows leadership to get a more concrete and accurate idea of the operational and financial challenges that might be faced in the implementation of reforms.

12.3 Human capital challenges in financial management and reporting within the Commonwealth

As mentioned in previous chapters, Puerto Rico has had fiscal management challenges for years that created a growing deficit in the Island. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must be able to return to the timely publication of audited financial statements and related disclosure information, which is a key issue for regaining access to markets, in accordance with PROMESA. Annual Comprehensive Financial Report (ACFRs) for FY2019 and FY2020 have yet not be published by the Commonwealth.

Best practice calls for audited statements to be published no later than 180 days after the end of each fiscal year. The FY 2017 Annual Comprehensive Financial Report (ACFR) was issued and published by the Government of Puerto Rico on August 31, 2020, taking more than 1,158 days (~38 months) to issuance, while the publication of the FY2018 ACFR took more than 1,096 days (~36 months) to issuance. The current rate of progress to close this gap and bring these reports and audits current is not effective and the amount of time projected to audit each year in arrears will guarantee that the Commonwealth will continue this unacceptable situation well into the future.

A root cause of Puerto Rico's financial management challenges is that the government lacks key personnel with the technical knowledge and training to properly implement new and current Governmental Accounting Standard Board (GASB) pronouncements and develop a proper financial management infrastructure. As a result, the Government continues to engage with outside contractors for critical day-to-day functions. Senior officers in charge of the preparation, review, and approval of the AAR's are replaced every time there is a change in administration. Meanwhile, Hacienda's workforce is significantly older than most private sector firms, which increases the seriousness of workforce challenges ahead. For example, almost half of Hacienda employees have been in government for over 20 years. Having long tenure but limited upward movement and training means that some employees may not have the "future skills" that are necessary for continued mobility. Similarly, employees with long tenure are more likely to have an outdated job description, with responsibilities that might be currently obsolete. And given high attrition rates across the Government, Hacienda will need succession planning efforts as well as effective sources and methods for recruiting and retaining candidates to avoid the loss of technical expertise in mission-critical skills.

In order to solve these workforce challenges, a clear and fact-based understanding of the human capital situation at Hacienda and other auditing areas at Component Units is required to align "people policies" to performance goals. Instead of adding additional accountants or establishing a new Uniform Remuneration Plan (URP) in a vacuum, the Government should work on developing a comprehensive human capital plan for financial management and reporting functions, using data and analysis to address specific areas, like strategic alignment, talent management, performance, and evaluation.

12.4 A human capital pilot to enable timely and effective financial reporting processes in the Government

The Government, in close collaboration with Oversight Board staff, has commenced the CSR Pilot to achieve an aligned and sustainable human capital strategy to meet future financial reporting challenges at the Commonwealth. The Pilot has the following objectives:

- Align the Commonwealth's workforce capabilities and organizational structures to better meet objectives
- Enable the Commonwealth to recruit and retain the right talent needed to meet financial reporting requirements

- Augment employee development through standardized training, evaluation, and knowledge transfer
- Optimize processes, technology, compensation, and policies to effectively support human capital management
- Redesign employee evaluations, training, and succession planning to promote employee motivation, professional development, and retention

The Government, jointly with the Oversight Board, assembled a Pilot Project Team (PPT)—comprised of Hacienda, the Office of Management and Budget (OGP, by its Spanish acronym), OATRH, the Fiscal Agency and Financial Advisory Authority (AAFAF, by its Spanish acronym) and the Oversight Board—to perform ongoing weekly tracking and reporting of the Pilot. The PPT is also in charge of reviewing current and future state documentation, such as operational structures, job descriptions, headcount, budgets, human resources policies and procedures, and previous financial reporting reports. Upon reviewing all the information, the PPT conducted a current state gap analysis in skills, abilities, and knowledge, and then define future state competencies and activities for finance and accounting roles at Hacienda and OGP. Based on the assessment, the PPT developed recruitment policies and processes and an actionable roadmap for Pilot implementation, prioritizing key positions for talent interventions.

The Pilot was developed in phases. *Exhibit 74* includes detailed actions, timelines, and milestones that required action by the Government to make progress in the Pilot.

EXHIBIT 74: PILOT MILESTONES AND PHASES

Action item	Phase Duration
▪ Establish Pilot Project Team comprised of Hacienda, OGP, OATRH, AAFAF, and FOMB	Week 2-3
▪ Evaluate current and future state of financial management and reporting at the Commonwealth	Week 4-10
▪ Conduct workload and workforce assessment of financial management divisions at Hacienda and finance departments at agencies participating in the Pilot	Week 11-15
▪ Develop Human Capital Plan for financial management divisions at Hacienda and finance departments at agencies participating in the Pilot	Week 16-19
▪ Develop recruitment strategy and actionable roadmap for pilot implementation (including new URP structure at pilot agencies/divisions)	Week 20-24
▪ Pilot execution – Recruitment of key personnel, deployment of new URP and employee evaluations at Pilot agencies/divisions	Week 25-32
▪ First Pilot Audit	Week 33-36

12.5 Oversight Board and pilot implementation collaboration

In addition to being a member of the PPT, the Oversight Board must play an active role in overseeing all aspects of the Pilot implementation. The Government must work with the Oversight Board and its staff to effectively implement key deliverables of this Pilot to ensure overall progress against objectives outlined in this chapter. The Government must work with the Oversight Board staff to evaluate existing processes, analyze the problem areas, and develop a new financial management structure and a human capital plan for the future.

While the implementation of the pilot is still under way, significant progress has been made so far thanks to ongoing collaboration efforts between the government and Oversight Board staff. The Government has worked with the Oversight Board staff on key deliverables of the Pilot, including a current state assessment, a workforce capability matrix and report, workload analysis summary, skills inventory, future state operating model / organizational structure design, short- and long-term recruitment strategies, revised recruitment policies and procedures, prioritized talent interventions, and an actionable implementation roadmap, exclusive of identifying contractor support for implementation.

12.6 From pilot to government-wide CSR implementation

Once the audit of the Pilot is completed and it is determined by the Oversight Board that the Pilot objectives and critical milestones were met on a timely manner, the 2022 Fiscal Plan provides support and funds for a larger-scale implementation and roll out of CSR.

While the implementation of the pilot is still under way, the Oversight Board understands the urgency of updating compensation structures to better recruit, retain, and motivate the workforce. But, as aforementioned, increasing salaries without meaningfully reforming the civil service will fall short in addressing the perennial structural problems in human resource management (HRM) in the government. That is why the Fiscal Plan should link these two efforts together. To address the urgency with compensation structures, the Fiscal Plan should include all URP compensation changes in FY 2023. However, the effective date of the URP implementation should be January 2023, pending compliance with the following milestones:

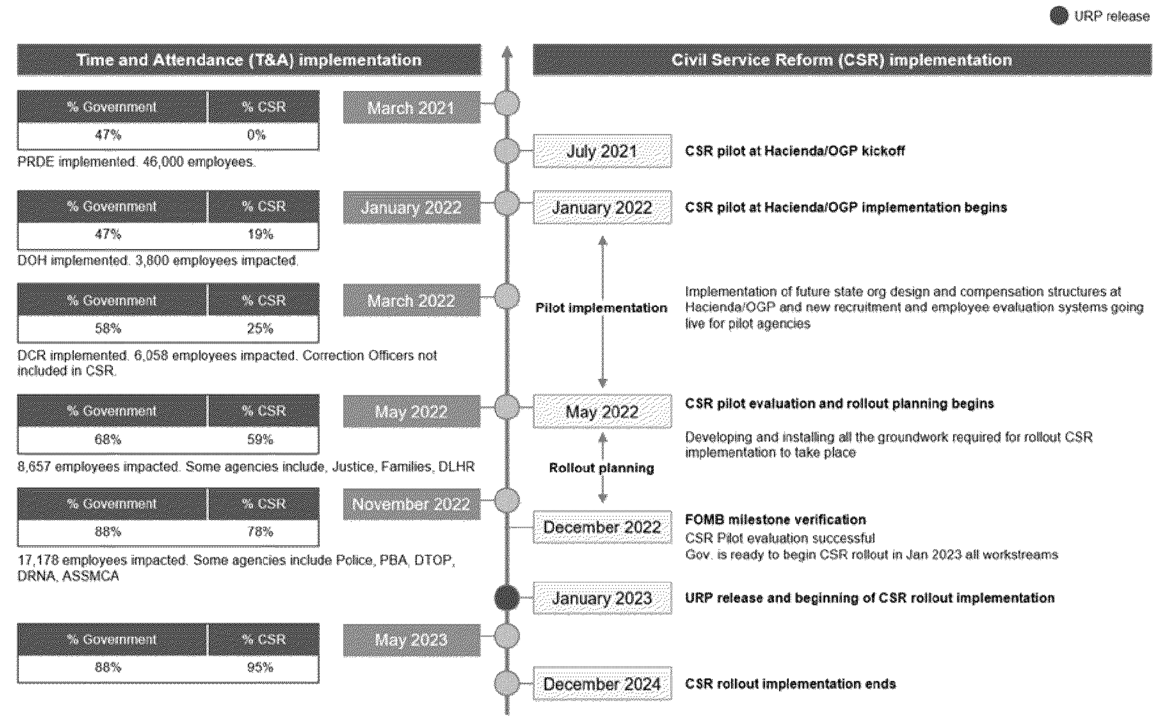
- CSR Pilot implementation at Hacienda and OMB completed and deemed successful by Oversight Board evaluation report
- New URP (government-wide) agreed by Oversight Board and OATRH
- Rollout implementation plan (roadmap) agreed by Oversight Board and Government for all remaining CSR workstreams
- Organization design rollout implementation roadmap agreed by Oversight Board and Government
- New systemwide recruitment system/processes developed and IT solution ready to be launched for the rest of URP government employees by January 2023
- New systemwide employee evaluation system/processes developed and IT solution ready to be launched for the rest of URP government employees by January 2023

Additionally, the government must continue with the implementation of time and attendance reporting project, which began at the Department of Education in March 2021. In order for the URP to take effect in January 2023, the Government must successfully deploy and implement time and attendance system for 87% of the CSR impacted employees by December 2022. *Exhibit 172* provides a list of agencies that need to have successfully completed implementation of the automated time and attendance/payroll project.

Upon completing the established milestones, implementation roll out for all CSR workstreams would begin in January 2023. The Government should continue to work with the Oversight Board on cultivating a high-performing public workforce in Puerto Rico by aligning the Government's workforce capabilities with organizational structures, and redesigning evaluation and recruitment processes to promote employee development and accountability. These efforts, together with a new URP system, will enable the Government to better recruit, retain, and motivate the right talent, augment employee development, and optimize human resources management at the Commonwealth.

The PPT will be tasked with developing a scaling roadmap detailing where, when, and in what order to expand CSR. *Exhibit 75* details the CSR and time and attendance project implementation timeline, including the essential steps and milestones that need to be completed to deploy the larger-scale CSR.

EXHIBIT 75: IMPLEMENTATION TIMELINE FOR CSR AND TIME AND ATTENDANCE PROJECT



12.7 Funding the CSR Pilot and larger-scale implementation

The Oversight Board estimates that the CSR Pilot will cost $11.5 million in FY2022, which includes $1.5 million in implementation costs. In addition to this amount, the 2021 Fiscal Plan had allocated $83 million for the implementation of the new URP. After conducting a thorough salary benchmarking analysis using local market data for all pilot employees, the PPT found that adjusting employee salaries to local competitive rates would cost an estimated 20% more than the URP budget request submitted by the Government last year. Therefore, to ensure enough funds are available to bring all government positions to market rates, the 2022 Fiscal Plan increases the CSR budget by 20%, or $16.6 million more than what was initially allocated in the 2021 Fiscal Plan.

Moreover, after conducting high-level organizational reviews in several key areas within pilot agencies, the PPT found that there are limited technical and leadership skills critical to propel and implement needed reforms to maintain fiscal controls, drive strategic objectives, and promote accountability, efficiency, and effectiveness in the government. As a result, the 2022 Fiscal Plan also allocates $33 million annually in addition to the amount allocated in the 2021 Fiscal Plan, increasing by inflation, to recruit approximately 500 additional positions across the government to address critical skills gaps. This will be done by tapping into external talent pools and top-performing current government employees for in-demand skills and competencies to support the digitalization of the Government, drive operational effectiveness and provide strategic planning and advisory support in key government functions. These positions will be identified after high-level organizational reviews are conducted by the PPT, which will provide future state

organizational design and workforce capabilities investment recommendations to enable government transformation. The PPT will be responsible for identifying future state recommended roles at the various in-scope agencies, developing detailed job descriptions as needed, and initiating the recruiting process for future state roles using the new CSR recruitment platform.

As the CSR Pilot scales, the Government and Oversight Board estimate that it will cost $132 million per year in General Fund expenditures. The 2022 Fiscal Plan includes almost $1.847 billion in investment in FY2022-FY2051 to cover much of the run-rate costs of the program, while it expects the Government to fund a portion through savings generated through its Time & Attendance project.

On March 8, 2021, the Puerto Rico Department of Education (PRDE), in conjunction with AAFAF and Hacienda, officially launched and implemented a Time and Attendance (T&A) project that allowed the Department to determine which employees were being paid while no longer active or employed. Already, $19 million in run-rate General Fund savings have been identified through PRDE's efforts. Implementation of T&A is estimated to save $47 million annually by ensuring that only active employees who show up to work get paid.

EXHIBIT 76: CSR COSTS AND SAVINGS[254]

Cost and Savings, $M	FY22	FY23	FY24	FY25	FY26	FY22-51
Civil Service Reform Costs	12	66	132	135	137	4,744
T&A Savings	31	46	50	51	51	1,847
Civil Service Incremental Costs to the CW	0	25	50	74	86	2,897

Chapter 13. The Financial Management Agenda

13.1 Introduction to the Financial Management Agenda

For the past two decades, Puerto Rico has been in a cycle of economic distress, whereby the phase-out of favorable federal tax policy was followed by a recession, population loss, underfunding of pensions, and overborrowing by prior administrations to maintain basic services as revenue vanished. The cycle has been accelerated by devastating natural disasters, financial malfeasance, and the COVID-19 pandemic.

When the Government's debt burden became unsustainable, Congress passed PROMESA, establishing the Financial Oversight & Management Board for Puerto Rico ("Oversight Board") to provide a method to achieve fiscal responsibility and access to the capital markets, ensuring the funding of essential public services, and improving fiscal governance, accountability, and internal control.

Today, after five years under PROMESA, Puerto Rico is exiting bankruptcy. The people of Puerto Rico will rightfully celebrate this milestone, but in fact it is just the first step on a long road to

[254] PRDE in FY2022 already achieved $22 million of savings as a result of T&A implementation in FY2021 of which $11.5 million will go to pay the Civil Service Reform in FY2022

economic recovery and renewal. The Government must keep moving forward, restore the Island's prosperity and fiscal responsibility, and ensure that Puerto Rico never returns to fiscal insolvency.

Achieving fiscal and economic health will require the kind of resolve the people of Puerto Rico have shown throughout their history. Even with the reduced debt load achieved with the Plan of Adjustment, Puerto Rico's finances will require further actions to be structurally sound. Success is dependent upon cooperation from all sectors of society and fundamental changes in the way Government does business.

Should the Government improve how it manages resources, fiscal stability can be achieved while meeting the basic needs of the people of Puerto Rico and investing in a brighter future. The Government management improvements should be guided by the following principles:

- **Goal-oriented,** setting clear milestones for success
- **Innovative** in overcoming obstacles
- **Accountable** for results

There are many obstacles in the way of the change Puerto Rico needs. Government's technology is often outdated, its workers are underpaid and undertrained, and resistance to new policies and practices is real. That said, overcoming obstacles is a way of life for the people of Puerto Rico.

The Financial Management Agenda ("Agenda") is about focusing on urgent problems and solving them.

The Agenda contains an ambitious set of initiatives to improve financial management and deliver results that matter to the Puerto Rican people. Specifically, it:

- Requires the Government's commitment to achieve immediate, concrete, and measurable results
- Focuses on remedies to serious problems and commits to implement them fully
- Is being undertaken in advance of, not instead of other needed management improvements

Implementing the Agenda and improving financial management will have direct and positive impacts on the lives of the people of Puerto Rico. It will enable the Commonwealth Government to access capital markets and invest in Puerto Rico's future at affordable rates. It will ensure federal disaster aid is put to use to rebuild critical infrastructure and help families and businesses get back on their feet. And finally, it will prevent misuse of taxpayer dollars.

A coherent plan

The initiatives in the Agenda are carefully chosen to lay a foundation for success, build on progress that has already been made, and achieve milestones that are most critical for restoring Puerto Rico's financial responsibility.

The 12 initiatives are grouped into three categories: Foundational, Central, and Supporting.

The **Foundational initiatives** are *Office of the Chief Financial Officer* ("OCFO") and *CSR*. These initiatives will provide the Commonwealth the clear leadership structure, capable workforce, and modern technology essential to implementing the other initiatives.

Establishment of the OCFO, already underway, aligns financial management functions across Government under singular leadership, enabling consistent policies and procedures, accountability for timely financial reporting, efficient resource use, and sharing of expertise and best practices.

The OCFO initiative also includes completing deployment of an Enterprise Resource Planning ("ERP") system that will replace a patchwork of accounting, procurement, and HR software with one platform that streamlines financial reporting, prevents errors and fraud, protects data from hackers, and provides tools to enable smarter spending decisions. The 2022 Fiscal Plan projections include $10 million per year beginning in FY2023 for five years of capital expenditures to support the implementation of the ERP system.

CSR, which is being piloted in the Department of Treasury ("Treasury") and the Office of Management and Budget ("OMB"), and then scaled across Government, will result in more competitive compensation and better recruiting, training, and performance management for public service employees. A skilled, motivated workforce is essential to implementing the Agenda.

Section 209 of PROMESA (Termination of the Oversight Board) provides for termination of the Oversight Board upon certification that:

> *An Oversight Board shall terminate upon certification by the Oversight Board that:*
>
> 1) *the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
> 2) *for at least 4 consecutive fiscal years--*
>   A. *the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and*
>   B. *the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.*

The four **Central initiatives** are specifically designed to meet these conditions.

Timely Audited Financial Statements are a prerequisite for issuing bonds at reasonable interest rates, and *Debt Management Policy Implementation* is necessary to assure investors and safeguard against future overborrowing and ensure future market access.

Budget Best Practices and *Federal Funds Management* work together to help Government more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources – all necessary components to enabling the certification of four years of balanced budgets of the territorial government under PROMESA.

The six **Supporting initiatives** represent actions needed to prevent waste, fraud, and abuse, make more effective use of the Island's assets, and professionalize the management of government resources.

- *Automated time and attendance* will ensure that only active employees who are working get paid.
- *Cash & bank account monitoring* will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting.
- *Procurement best practices* will make government purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules across departments.
- *Non-partisan legislative scoring* will ensure that the fiscal impact of legislative actions is accurately estimated and budgets are based on revenue forecasts prepared by well-trained experts.

- *Real estate best practices* will ensure that all government-owned property is accounted for, properly maintained, and delivers maximum value to the people of Puerto Rico.
- *Real property registry* will streamline the land registration process, verify ownership of all land on the Island, and assist with the enforcement of taxes and distribution of disaster relief funding.

Implementing the agenda

The Government must take several steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers on promised results. The Fiscal Plan recommends to:

- Establish a Governor's Management Council ("GMC") consisting of the chief operating officers (or equivalent senior officials) of major agencies and Commonwealth public corporations (*Exhibit 78)*. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda's implementation. Importantly, the GMC provides a way for leadership across agencies to support government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together
- Create detailed implementation plans for each initiative, with definitive timelines, milestones, action steps, budgets, and responsibilities.
- Designate Financial Management Centers of Excellence. Implementing and maintaining modern financial management standards across more than 100 units of government risks uneven and inconsistent implementation, reliance on expensive consultants and contractors, and, ultimately, failure. To provide Puerto Rico the best chance for success and make the most of limited resources, the Fiscal Plan recommends that the Governor direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities.
- Implement an accountability structure that includes:
  - Public scorecards showing the status and progress of Agenda initiatives
  - A "FinanceStat" program that tracks government-wide and agency-level financial performance and results and quickly identifies and corrects problems
  - Recognition awards for individuals, teams and agencies that meet and beat performance targets

A shared responsibility

Realizing the goals of the Agenda will require a team effort, with cooperation from many partners. The Fiscal Plan recommends that the Government call on these partners to play key roles in the Agenda's success.

The legislature will be asked to support policy changes that institutionalize strong financial management, provide the resources needed to implement initiatives, and exercise oversight to hold agencies accountable for results.

Government employees will be asked to adapt to new ways of doing business, upgrade their skills, and approach the hard work of implementation with a can-do spirit. This Agenda is intended to give civil servants a greater role and stake in Puerto Rico's fiscal future.

The private sector will be asked to lend its expertise to help government leaders and front-line workers fix broken processes, deploy new technology, and manage change.

The public will be asked for its patience as the Government implements the Agenda. Although improving how the Government manages money may not capture the imagination, these initiatives will result in long-term benefits that impact everyone in a positive way.

The expected results

Exiting bankruptcy comes with both opportunities and obligations. Puerto Rico can move forward towards financial responsibility and economic renewal but must make major changes to how it manages public funds. The changes detailed in the Agenda will collectively bring about an array of benefits that residents of Puerto Rico will see and feel.

- Puerto Rico will be able to access financial markets for long-term investments in better schools, transportation, energy transmission, clean water, broadband, and other initiatives that benefit the people of Puerto Rico.
- Businesses will be attracted to the Island, sparking economic renewal and population growth, reversing decades of decline.
- Government budgets will be based on facts instead of fiction, and the combination of more complete and timely financial data and more efficient financial systems will enable leaders to make better use of available resources.
- Residents of Puerto Rico will know how their tax dollars are being spent and can be confident that the Government is no longer wasting millions of dollars due to mismanagement and fraud.
- The Government will be able to pay competitive salaries, lure back talent that has migrated off the Island, and deliver services that exceed customer expectations.

The people of Puerto Rico have persevered through challenges throughout their proud history. They know the meaning of hard work, sacrifice, and living within your means. They deserve a government that exhibits all of those qualities. The Agenda is a call to action and a compass pointing the way.

13.2 **Foundational Initiatives** (OCFO/ERP, CSR)

13.2.1 Office of the Chief Financial Officer

One of the key goals of PROMESA is for fiscal accountability to be quickly and permanently ensconced in the Government, which entails the creation of a strong Office of the Chief Financial Officer (OCFO). By centralizing key financial management functions (e.g., financial reporting, procurement, payroll) under a capable and well-resourced OCFO, the Government can address long-standing issues that have arisen under the Island's historically decentralized financial management regime.

On March 9, 2021, the Governor issued Executive Order 18-2021, which repealed and replaced prior administrative orders to create the OCFO. The OCFO will centralize all financial management functions for the Commonwealth. The goal is to provide a uniform and coordinated structure to support fiscal governance and transparency. The OCFO will be instrumental in implementing the new comprehensive ERP system that will support financial data recording, reconciliations, and timely interim and year-end financial reporting as well as timely preparation and audit of its financial statements.

Over time, relevant responsibilities presently distributed across various Government agencies should be consolidated within a legislated OCFO. After this consolidation, the Government should consolidate or eliminate the following agencies:

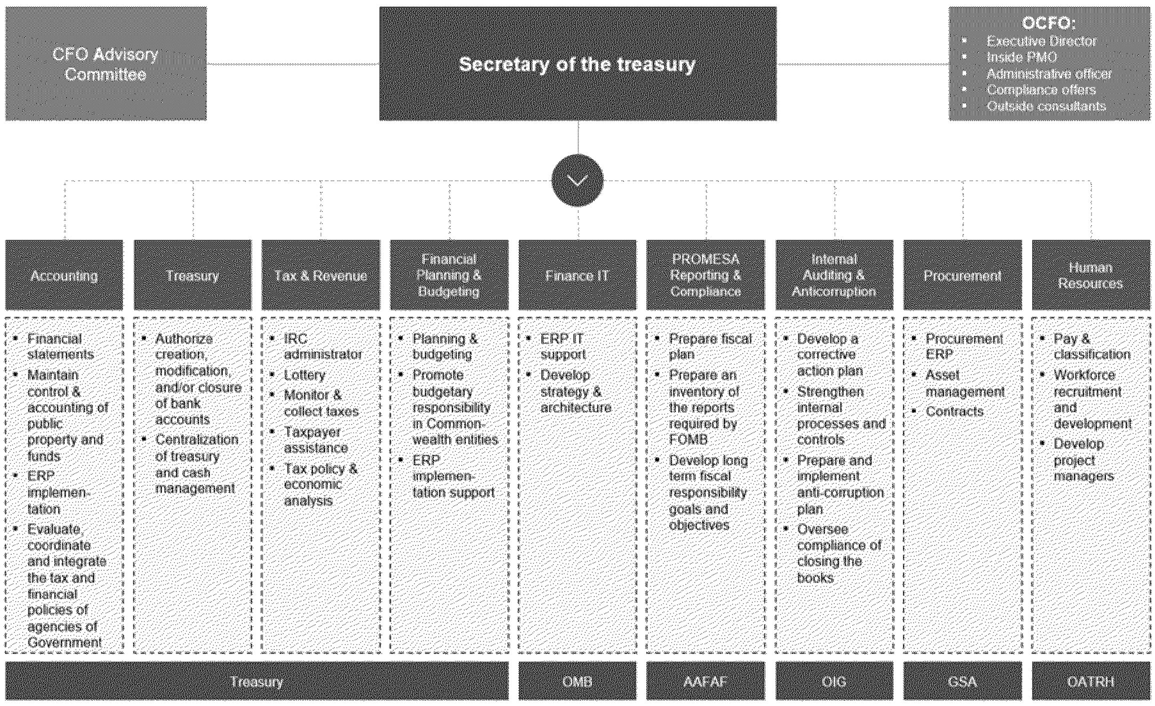
EXHIBIT 77: LIST OF AGENCIES IN FUTURE STATE OCFO GROUPING

1 Department of Treasury (Hacienda)	4 Treasury (internal entity)
2 Office of Management and Budget	5 General Services Administration
3 Office of Administration and Transformation of HR	6 Fiscal Agency and Financial Advisory Authority[1]

1 Current consolidation plan may leave agency as a separate entity

The OCFO consolidated agencies and advisory committee are shown in the organizational chart below:

EXHIBIT 78: OCFO CONSOLIDATED AGENCIES AND ADVISORY COMMITTEE



The Agenda calls for strengthening the OCFO in line with the following core objectives and responsibilities:

- Centralizing treasury and liquidity management to:
  - Enforce and manage a consolidated Treasury Single Account (TSA) for the Government that controls and offers visibility into all Government bank accounts (to the extent possible), including those of component units (CU) at private banks
  - Enable all other public entities to maintain zero balance sweep accounts
  - Empower the OCFO to serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis
  - Facilitate the rationalization of the Government's account portfolio to support maximization of earnings, cash pooling, daily cash sweeps and treasury operations, and

implementation of uniform accounts payable and disbursement prioritization processes and reports

- Enhancing the budget development process by improving monitoring and performance tracking to:
  - Comply with the recently-issued Oversight Board budget guidelines to develop an auditable budget that is readily-traceable to the 2021 Certified Fiscal Plan and its priorities
  - Forecast and manage the seasonality of tax receipts
  - Forecast and report the fiscal cost of tax credits
  - Oversee all tax decrees and tax agreement issues
  - Operationalize the financial system budget to ensure consistency between accounts and facilitate their monitoring
  - Estimate, protect, and enhance tax collections and revenue streams
  - Establish budgetary priorities—namely, effective expenditure controls and Government-wide procurement reforms
  - Develop budgets using detailed and granular account level structures for expenditures and revenues accounting through standard guidelines followed by all Commonwealth agencies
  - Report revenues and expenditures' budget-to-actuals for the General Fund, Special Revenue Funds, and Federal Funds on a recurring monthly basis
- Driving the standardization and integration of the Government's financial information technology (IT) systems to:
  - Identify disparate systems being used for financial tracking and reporting
  - Establish a roadmap to standardize and integrate systems to the fewest possible
  - Orchestrate the integration across agencies, including defining new policies and procedures, coordinating data migration and validation, and training system users to effectively utilize new systems
  - Improve and standardize processes that support and contribute to the accuracy of financial information provided to the ERP
  - Evaluate current laws which exempt certain government entities from the Puerto Rico Government Accounting Act. While some entities are mandated by law to maintain fiscal independence, these entities could still leverage central financial IT systems to reduce costs and automate current processes
- Ensuring compliance with procurement, contract, pension, and human resource management policies across Government agencies to:
  - Certify all contracts, bills, invoices, payroll charges, and other evidence of claims, demand, or charge relating to the Government and entities reliant upon its taxing authority by prescribing receipts, vouchers, and claims for all agencies to leverage
  - Manage centralized health insurance procurement and policy management

  - Oversee human resources, Government payroll operations, and all Government-related financial transactions. Implement uniform time, attendance, and overtime processes, payroll controls, and reporting standards

- Strengthening oversight of Special Revenue Funds (SRF) through enhanced control mechanisms to:

  - Implement processes and guidelines that improve stewardship and centralization of all SRFs

  - Ensure all revenue streams attributable to SRF are deposited within the TSA

  - Improve centralization of revenues and expenditure budget-to-actual reporting and accounting of transactions in a centralized accounting system

- Improving the timeliness of the Government's annual audited report (Annual Audited Report) and financial reporting to:

  - Produce unqualified Annual Audited Reports in accordance with GAAP standards and leverage new forecasting, e-settlement, and analytics capabilities for FY2019 onward within established regulatory timeframes

  - Issue the FY2019, FY2020, and FY2021 Annual Audited Reports no later than August 2022

  - Implement long-lasting standard reporting processes and policies to ensure FY2022 and beyond audit issuances can occur within six months of a fiscal year end

  - Support stronger implementation of measures required by the 2021 Certified Fiscal Plan and more robust reporting of actuals

  - Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments

- Centralizing and validating the management of Government funds, debts, and other financial transactions to:

  - Maintain custody of all public funds, investments, and cash

  - Administer cash management programs to invest surplus cash

  - Facilitate short- and long-term borrowing programs

  - Establish accountability over all Government funds, property, and assets

  - Oversee all tax decrees and agreements issued

  - Publish an annual Tax Expenditure Report ("TER") that identifies and quantifies all tax expenditures (initial report published in September 2019 for tax year 2017, 2018 report published in May 2021)

- Overseeing the Implementation of the 2022 Certified Fiscal Plan to:

  - Enable all Government agencies to comply with efficiency measures stipulated within the 2022 Certified Fiscal Plan

  - Facilitate timely and targeted interventions to address areas of underperformance relative to efficiency measures

- Ensuring robust management of new federal funds to maximize and optimize their usage to:

- Assign leaders to spur accountability and improve transparency
- Establish mechanisms to coordinate with federal counterparts
- Plan for financial inflows
- Provide appropriate resources for agencies to handle the influx of demand

The problem

- The financial management of the Government is divided among five independent offices making financial decisions regarding treasury/cash management, budgeting, fiscal planning, procurement, and human resources.
- Puerto Rico lacks a centralized and efficient ERP system that all Commonwealth entities can use for accounting and budgeting purposes. Multiple, fragmented financial systems make preparation and reconciliation of financial statements time consuming and difficult, increase error rates, and prevent coordinated planning.
- Puerto Rico's ERP implementation process has suffered many cost overruns and implementation delays.
- Policies and procedures for accounting and finance are inconsistent across the Commonwealth; for example, a monthly closing requirement for all entities does not exist and most entities rely on their own processes and timelines. Circular Letter No. 1300-05-22 was issued by Treasury on August 12, 2021 attempting to resolve the issue by requiring entities to provide a work plan to comply with the requirement of closing on or before the 20th of the following month. A collaboration was established with the Office of the Inspector General to oversee compliance with this requirement.
- Reporting of financial information is not centralized; in particular, there is no consolidated budget-to-actual report, which hinders the management and control of resources. The General Service Administration ("GSA") lacks support and authority to implement systemwide procurement across Government, meaning higher costs for goods and services, duplicative purchasing, and lost opportunities for innovation. Although centralized cash reporting and monitoring has been started by the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF" for its Spanish acronym), the reporting excludes several entities. Additionally, control over the creation, modification and closing of bank accounts is not centralized or coordinated.
- There is no ledger of all Commonwealth assets (including owned real estate). The decentralized management of these assets places them at risk of theft, misuse, and devaluation.

The OCFO lacks adequate staffing with appropriate skills and competencies to achieve the mandate set forth in the Executive Order 18-2021. These deficiencies have caused delays in achieving progress across the breadth of the OCFO's directives.

The initiative

The OCFO, to the extent permitted by legislative authority, will invoke full authority and control over all accounting and financial management of the Commonwealth to support consistent and uniform policies and procedures. To the extent that there are legislative impediments to the exercise of full authority, these will be identified and revisions will be requested.

The following are key areas of progress needed to realize the vision of the OCFO:

Enterprise Resource Planning ("ERP") System

The OCFO will prioritize the implementation of the ERP as a driver for change in organizational processes, procedures, and staffing requirements. The Government must document and standardize all processes that lead up to recording transactions and must replace processes that are redundant or inconsistent with those contained in the new ERP. As these processes change, so do the roles of the people executing them, providing an opportunity to consolidate functions.

During the process of implementing a new ERP system, the OCFO will educate all individuals involved in the transaction flow on the importance of their role to the overall integrity of the new ERP. The Government should not be automating inefficiencies but rethinking the processes to take maximum advantage of the controls built into the new system and be constantly vigilant at pushing back on modifications allowing for old processes and procedures to continue. In this way, the implementation of ERP can be a key driver of efficiency and accuracy of financial functions.

The 2022 Fiscal Plan recommends the OCFO complete the required implementation items displayed below in *Exhibit 79*:

EXHIBIT 79: ERP REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline
To be completed in FY 22	▪ **Create an Executive Project Steering Committee**, chaired by the CFO and composed by other executive level officials to oversee the implementation.	▪ OCFO	▪ May 2021 *Completed*
	▪ **Designate project management team** (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	▪ OCFO	▪ June 2021 *Completed*[1]
To be completed in FY 23	▪ **Agree on a project plan with milestones and budget** for completion of phases and projections of total project completion.	▪ OCFO	▪ November 2022
	▪ **Select ERP solution and implementer.**	▪ OCFO	▪ December 2022
	▪ **Review and change accounting system cycles,** perform data clean up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	▪ OCFO	▪ March 2023
To be completed in FY 24	▪ **Reassess the full project timeline and fees based on the results achieved in Wave 1.** Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1.	▪ OCFO	▪ September 2023
	▪ **Complete ERP Wave 1 implementation** for the internal ERP system at Hacienda.	▪ OCFO	▪ December 2023

1. Milestone budget incentive was released on November 4, 2021, upon completion

The Commonwealth will limit its reliance on contracted resources to assist with the implementation of the ERP. The ERP steering committee will ensure that the new ERP is fully functional for centralized Government entities by FY2024 and functional for component units by FY2027 and the system remains up to date and meets the evolving financial challenges of the future.

Financial controls

- Standardize accounting policies and procedures across Government. OCFO will prepare circular letters guiding all Commonwealth entities to close their books monthly and report monthly and annual results to OCFO. This will be achieved through a standard chart of accounts, automated journal entries, and automated reconciliations supported by the ERP system.

- Revise procurement procedures to increase transparency and lower costs.
  - OCFO will implement a transaction monitoring process for all entities, lower the threshold for competitive purchases, manage centralized insurance policy procurement, and build a searchable procurement portal within the ERP system that will make information on bid winners available to the public.
- Enforce and manage a consolidated Treasury Single Account ("TSA") for the Government that controls and offers visibility into all Government bank accounts including those of component units at private banks. All other public entities will maintain zero balance sweep accounts.
  - The OCFO will serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis.
  - The OCFO will implement a monthly cash utilization report.
  - The OCFO will keep a record of all transactions at the time of occurrence.
- Account for all Government funds, property, and assets, and:
  - Produce, monitor, and manage the Central Government's capital plan in coordination with all relevant executive branch agencies
  - Oversee the preparation of a consolidated list of all real estate assets owned by the Commonwealth
  - Issue a monthly report with summary analysis of all Commonwealth investments
- Hire adequate staff to oversee all mandates established in the Executive Order 18-2021
  - A market assessment of available resources will be completed to develop strategies to attract talent.
  - CSR will assist in solving staffing and experience shortfalls.

The 2022 Fiscal Plan recommends the following implementation items displayed below in *Exhibit 80*:

EXHIBIT 80: OCFO REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline
To be completed in FY 22	▪ **Transfer DC plan funds from 2017 onward (located in temporary trust) into newly created segregated accounts**, including payroll transfer of the employee contributions to the new DC account.[1]	▪ OCFO	▪ Quarterly progress
	▪ **Submit Annual Acquisition Plan to GSA**, as provided for in Circular Letter 2021-04. All entities covered under Act 73-2019 must submit the plan.	▪ OCFO, GSA and Gov't entities covered under Act 73-2019	▪ March 2022
	▪ **Identify all workstreams** for which OCFO is responsible to establish organizational framework with appropriate staffing and complete the organizational and budget plan.	▪ OCFO	▪ June 2022
To be completed in FY 23	▪ **Create and recruit associate CFO positions** for the following groupings: (a) Economic Development, (b) Education, (c) Health, (d) Housing, (e) Public Safety, and (f) Justice, whose authority would fall under the OCFO pursuant to legislation.	▪ OCFO	▪ September 2022
	▪ **Ensure passage of legislation** to enable consolidation and empower OCFO as the central authority over finance, budget, human resources, audit, etc[1]	▪ OCFO	▪ March 2023
To be completed in FY 24	▪ **Centralize procurement** for items purchased across the Commonwealth.	▪ OCFO & GSA	▪ March 2024

1. For all entities supported by the General Fund or dependent on the Government's taxing authority

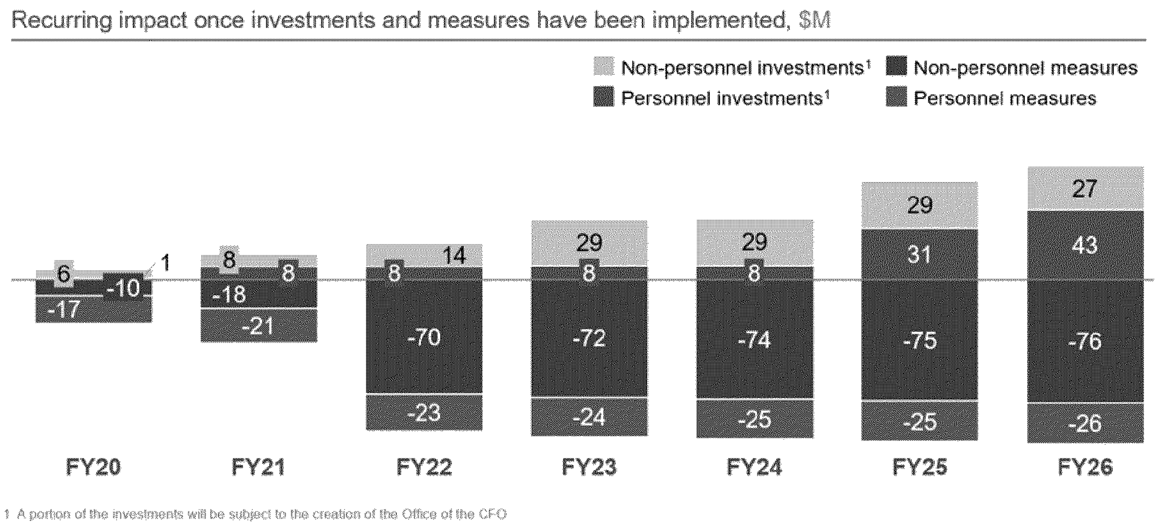
Consolidation Savings

The Office of Management and Budget (OMB), the Office of Administration and Transformation of Human Resources (OATRH, by its Spanish acronym), and the General Services Administration (GSA) will achieve significant savings as part of their consolidation under OCFO.

During 2021 the Government focused efforts on implementing the Procurement Reform Act by appointing required leadership positions, formalizing the Uniform Regulation for Purchases and Bids of Goods, Works and Nonprofessional service and finalizing the transfer of procurement employees from Central Government agencies as provided for in a circular letter published in January 2021. Although these milestones have advanced procurement centralization that will continue during FY2022, savings have not yet been materialized given delays in reform implementation. To achieve the 2021 Fiscal Plan savings projections, OCFO reforms will be implemented at the pace outlined below in *Exhibit 80*.

OCFO will also continue driving consolidation and other reforms to achieve recurring impact through FY2026 outlined in *Exhibit 81* below. During the 2022 Fiscal Plan period, personnel measures will continue to deliver run-rate savings of $26 million and non-personnel efficiencies of $76 million by FY2026.

EXHIBIT 81: OCFO INVESTMENTS AND MEASURES SUMMARY OF IMPACT



Investment Requirements

The OCFO has requested $3,050,000 to support the implementation of financial management initiatives. The Oversight Board approves $500,000 of this amount for the remainder of FY2022 and will approve the remaining $2,550,000 for FY2023 contingent on the OCFO delivering by May 30, 2022 detailed action plans for the following initiatives in the Financial Management Agenda: Timely Audited Financial Statements, Budget Best Practices, and Federal Funds Management.

The action plans must include the information listed below for each of the initiatives' action items in the Financial Management Agenda and be approved by the Oversight Board:

- Name of action item
- Name and description of implementation steps required to achieve action item/milestone
- Lead agency and point person for each implementation step
- Start and end dates for each implementation step
- Gantt chart that graphically displays the implementation schedule

Expected results

- Upon completion of the ERP, all entities will be integrated and connected to a centralized accounting and financial information system to improve the accuracy and timeliness of financial reporting.
- Reporting of all financial information of the Government will be accurate, transparent, and consistent with public sector accounting standards.
- The Governor's executive team will have financial information to support decision making, including developing and executing budgets that deliver desired results within available resources.
- The Government will have centralized procurement of real estate, technology, and other mission-support assets and services across the Government.

- Consolidation of all public funds will support maximizing investments and improving cash management.
- Transactions will be recorded at the time of occurrence. Information on transactions and their flow through processes will be transparent and accessible by all interested parties.
- Central management of assets will ensure public funds are earning the most return possible to benefit the people of Puerto Rico.
- The centralized finance office will improve stakeholder confidence in Puerto Rico and support long term growth of the economy. Stronger internal control procedures will provide accountability and oversight of all Commonwealth resources.

13.2.2 Civil Service Reform

A capable, motivated civil service is essential for successfully implementing and institutionalizing the initiatives in the Agenda. Past attempts at CSR in Puerto Rico have fallen short, which is why the Governor and the Oversight Board are collaborating to pilot a series of human resource management best practices in Puerto Rico's core financial agencies, Hacienda, and the Oversight Board.

The problem

- A high-performing government requires a workforce that is well-trained and educated, fairly compensated, and effectively managed. The Commonwealth Government's workforce falls short of these requirements.
- The Commonwealth Government's workforce is less educated than federal and state government workforces.
  - One-third of Puerto Rico's Government employees have a high school degree or less, compared to only 20% in the federal government. When compared to states, Puerto Rico has one of the highest proportions of employees with a high school degree or less (only six states have a higher proportion).
  - Only 16% of the Commonwealth Government workforce have graduate degrees, compared to 30% in the federal government. When compared to states, Puerto Rico has one of the lowest ratios of graduate degrees in its workforce.
- Pay for Commonwealth employees is not competitive on the Island, much less with the mainland, and the compensation structure is unfair.
  - Government workers with a high school degree earn a little over $25,000 a year, which is $3,000 (more than 10%) below the average salary in Puerto Rico ($28,437).
  - There is a significant wage discrepancy between trust employees (who fill non-civil service positions without a competitive hiring process) and career employees, even after taking into consideration differences in educational attainment, age, years of experience in the Government, position hierarchy or union status between them. Trust employees earn, on average, 45% more than career employees after controlling for these factors.
- A large portion of the Commonwealth workforce is nearing retirement, and agencies are struggling to fill positions with qualified candidates.
  - The median age of the civil service workforce is over 50 years old.
  - The median years of service in government for employees is 21. Over the past decade, Puerto Rico has lost almost 300,000 working age adults to outmigration.

- Succession planning is weak or non-existent in most agencies.

- The Government lacks a standardized performance management system. Most employees do not have documented work plans or receive formal feedback from supervisors. As a result, high-performing employees are not rewarded, and poor performers are neither trained nor terminated.

The initiative

- In 2021, the Governor and the Oversight Board initiated a CSR pilot with two Government agencies, OMB, and Treasury. The pilot is focused on core finance and accounting functions. Using lessons learned from the pilot, the CSR will expand to other Government agencies.

- The objectives of the CSR Pilot are to:

  - Align the Commonwealth's workforce capabilities and organizational structures with agency mission and goals through training and education

  - Identify and implement modern recruiting policies, processes, and procedures, enabling the Commonwealth to recruit and retain the right talent needed to meet financial reporting requirements. A new web-based recruitment platform will increase accessibility, reach, and accountability through a data-driven process

  - Augment employee development through standardized training, evaluation, and knowledge transfer

  - Benchmark position classification and compensation against the comparative market and make corrections for positions that are outside the competitive range

  - Redesign performance management and succession planning to promote employee motivation, development, and retention. This includes building a robust performance management system that can support skill development, clear paths to career advancement, and make employee appraisals meaningful

  - Integrate guidelines and regulations into a new HR digital records solution

- The pilot will be evaluated, and successful solutions will be scaled Government-wide. A pilot-then-scale implementation approach enables Government leadership to see reforms in action and allows for policy changes and new programs to be adapted and modified as required prior to a larger-scale, government-wide implementation and rollout. This approach also allows leadership to get a more concrete and accurate idea of the operational and financial challenges that might be faced in the implementation of reforms

Expected results

- Agencies will have the tools they need to attract and retain talented people who will deliver high levels of performance.
- Current Commonwealth employees will be properly trained and compensated to meet performance expectations.
- Accountability for results will be clear and meaningful with positive rewards for success and real consequences for failure.
- Residents will recognize improved service and performance and resident satisfaction will increase.
- Government employee satisfaction will increase, encouraging retention of current employees while attracting new talent.

- Agencies will build, sustain, and effectively deploy the skilled, knowledgeable, diverse, and high-performing workforce needed to meet the current and emerging challenges of the Government and its residents.
- The workforce will be able to adapt quickly in size, composition, and competencies to accommodate changes in mission, technology, strategy, and labor market.

Additional details about the CSR initiative can be found in *Chapter 12*.

13.3 **Central Initiatives** (Timely Audited Financial Statements, Debt Management, Budget Best Practices, Federal Funds Management)

13.3.1 Timely Audited Financial Statements

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must be able to return to the timely publication of audited financial statements and related disclosure information, which is a key issue for regaining access to markets, in accordance with PROMESA. Best practice calls for audited statements to be published no later than 180 days after the end of each fiscal year.

The problem

- The Commonwealth has been late in completing its Annual Comprehensive Financial Report (ACFR). The most recent ACFRs, for fiscal years 2017 and 2018, were both published over 35 months after the corresponding fiscal year ended. Delayed audits negatively impact the reliability of financial information used to forecast revenues and expenditures and ensure balanced budgets that are a condition for Oversight Board termination. Commonwealth management, bondholders, constituents, and other stakeholders are unable to rely on audited information to understand the allocation of resources, make short-term and long-term investment decisions, and assess credit worthiness.
- The causes of delay in financial statement preparation are numerous. They include:
  - More than 26 different audit firms provide services to agencies and other organizations covered by the government-wide financial statements (also known as component units), causing complexities in coordination
  - A large amount of the information needed for financial statement preparation is processed manually
  - Commonwealth agencies and component units use multiple accounting systems that are not interfaced with one another
  - Outdated financial software leads to unposted accounting entries, unfinished cash reconciliations, and other problems
  - Financial data presented by agencies contains unreliable information and statements are not prepared in a timely manner
  - Control deficiencies identified by audits remain unresolved and corrective actions have not been implemented by agencies. Circular Letter No. 1300-03-22 was issued by Treasury on July 28, 2021 requiring entities to provide corrective action plans to resolve any deficiencies identified by auditors in the management letters. A collaboration was established with the Office of the Inspector General to oversee compliance with this requirement.

- Many government agencies lack appropriate staffing and technical capability to produce accurate and timely financial statements. Heavy reliance on contract accountants, with limited oversight from the OCFO, has created gaps in financial management competence and accountability.

The initiative

- Audited financial statements will be issued no later than six months after the end of the fiscal year, consistent with financial reporting best practices according to the Government Finance Officers Association ("GFOA"). To ensure this schedule is met, the Administration will direct that:
  - Component units audited financial statements are issued three months after the fiscal year.
  - Multi-year contracts are established to audit the ACFR and component units.
  - Reporting formats and distribution are standardized.
  - Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.
- Financial information will be consistently monitored and updated**.** Agencies and component units will:
  - Follow the policies and procedures that define and support a 'record to report' cycle, such as:
    - Prepare monthly, quarterly, and annual accounting closings and financial statements
    - Perform recurring monthly cash reconciliations to close accounting period
- Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
  - Personnel will be provided with job-specific training.
  - Processing of data inputs for financial statements will be automated with the implementation of the ERP.

Expected results

- Consistency in financial reporting and informed policy decisions will build trust and increase stakeholder confidence allowing Puerto Rico to access the bond market at lower interest rates.
- Timely reporting will allow for more accurate and precise forecasting of Puerto Rico's revenue streams, account balances, and outstanding liabilities, enabling the Government to develop and execute balanced budgets.
- Policy makers will be able to make decisions using up to date financial information.
- Internal control deficiencies will be identified and addressed in a timely fashion, preventing waste, fraud, and abuse.

EXHIBIT 82: TIMELY AUDITED FINANCIAL STATEMENTS

	Required implementation actions	Responsible party	Deadline
To be completed in FY 22	▪ **Issue FY19 audited financial statement.**	▪ OCFO	▪ January 2022
	▪ **Issue FY20 audited financial statement.**	▪ OCFO	▪ April 2022
To be completed in FY 23	▪ **Issue FY21 audited financial statement.**	▪ OCFO	▪ August 2022
	▪ **Issue FY22 audited financial statement.**	▪ OCFO	▪ December 2022
	▪ **Expedite actuarial reports** to complete CU financial a "record-to-report" cycle.	▪ OCFO	▪ December 2022
	▪ **Develop policies and procedures** that define and support a "record-to-report" cycle.	▪ OCFO	▪ December 2022
	▪ **Establish a multi-year contract with prequalified contractors** for ACFR and Component Units.	▪ OCFO	▪ January 2023
	▪ **Perform closing financial records** on a monthly, interim, and annual basis for agencies and Component Units.	▪ OCFO	▪ March 2023
	▪ **Publish a management letter for each audit** that includes management's comments and corrective actions for auditor-identified control deficiencies.	▪ OCFO	▪ March 2023

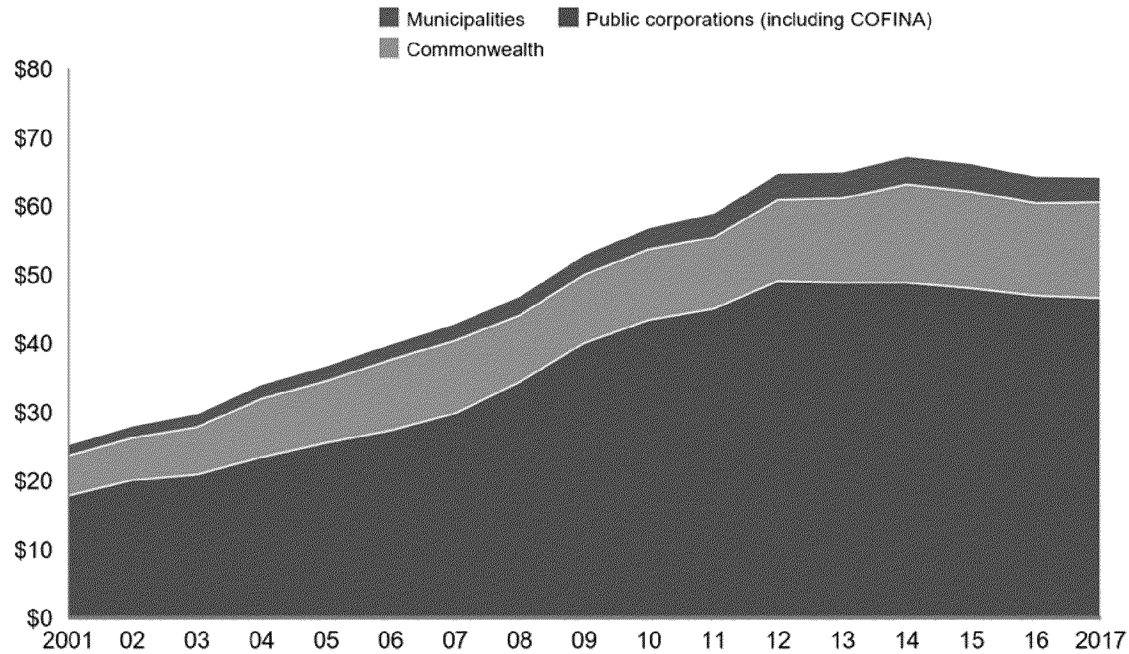
13.3.2 Debt Management Policy

The problem

- Puerto Rico has faced an unprecedented fiscal emergency for the past decade as a result of accumulated operating deficits and excessive borrowing. In 2016, when PROMESA was enacted, total bond debt owed by the Commonwealth, its municipalities, and public corporations was approximately $70 billion, having nearly tripled since 2001.
- Under PROMESA, a significant amount of Puerto Rico's debt has been restructured and additional restructurings are underway. However, such restructurings are not enough to ensure long-term fiscal sustainability without major policy changes. Standard & Poor's credit rating for Puerto Rico stands at D with a negative outlook. This is the lowest rating possible, reflecting a default status, and substantially impacts the Government's borrowing costs and severely limits access to credit markets.
- Structural budget shortfalls and financial management weaknesses create pressure to continue unsustainable borrowing practices.
- Puerto Rico lacks sound debt management policy and oversight for both General Obligation (GO) debt (backed by the full faith and credit and taxing power of the Commonwealth) and limited liability revenue debt (payable from specific revenue sources, whether issued by the Commonwealth or its public corporations).
- A decentralized system with multiple debt issuers and unconnected systems of accounting across Government entities makes effective debt monitoring nearly impossible.
- At the municipal level, several underlying challenges exist for the Commonwealth to actively monitor and support sub-borrowers, including the need for enhancing debt management practices, a lack of debt governance, the need to enforce repayment compliance of

intergovernmental payables, the need of recurring financial reporting (i.e., Fiscal budgets and B2A reports) and debt reporting to disclose financial capacity and condition of each municipality, as well as the need for a central repository that captures all municipal economic and financial data.

EXHIBIT 83: PUERTO RICO GROSS OUTSTANDING DEBT ($ BILLIONS)[1]



1 The total debt does not include $49 billion unfunded pension liabilities.

SOURCE: Statistical Appendix to the FY 2020 Economic Report of the Governor, Puerto Rico Planning Board

The initiative

- The Commonwealth will adopt a comprehensive written Debt Management Policy with effective enforcement provisions through legislation and executive orders. AAFAF will use the obligations outlined in Sections 74.4 and 74.5 of the Commonwealth Title III PoA. At a minimum, the Debt Management Policy will clearly reflect the following items from the PoA:
  - **The Debt Management Policy must be in writing:** The policy should be relevant to the bond market conditions and standards which may require amendments in future years. The Oversight Board must approve the policy.
  - **Long-Term borrowing for capital improvements only:** Proceeds derived from any such issuance may be used to cover any and all direct and indirect expenses that, in the issuer's reasonable discretion, are necessary to carry out such Capital Improvements.
  - **30-year maturity limitation on All Tax-Supported Borrowing:** Debt issuances may not extend beyond 30 years from the original issue date, even in the case of refinancing.
  - **Required Principal Amortization:** All debt issues must begin principal amortization within two years of the original issuance date or up to five years as may be permitted under U.S. Internal Revenue Code for tax exempt financings.
  - **Refinancing Permitted only for Cash Flow Savings in Every Fiscal Year:** refinancing of debt must be less than or equal to original principal and interest payments and the present value must be less than the original issuance.

- **Fiscal Plan Debt Service:** All debt service must be included in the fiscal plan

- Article 3 of the "Puerto Rico Debt Responsibility Act" (Act 101-2020) mandates that AAFAF adopt and maintain a Debt Management Policy applicable to the Government, its public corporations, and instrumentalities and allows the policy to be more restrictive than the requirements set forth in the Act. AAFAF will ensure that the Debt Management Policy is comprehensive, following best practices guidelines from other States and recommendations provided by the GFOA, the International Monetary Fund ("IMF") debt management frameworks, and the Commonwealth Plan of Adjustment. If necessary, AAFAF will recommend amendments to Act 101-2020 to authorize the strongest possible policy. At a minimum, the regulations underlying the Debt Management Policy will clearly specify the following:

  - Firm restrictions, regular surveillance, and strict requirements by each type of debt obligation and the total Commonwealth debt, including debt issued by its public corporations.

  - Guidance for different types of debt, specifically i) General Obligation ("GO") debt versus debt backed by a specific revenue source and ii) debt issued by the Commonwealth versus its public corporations, to provide clarity to future bondholders and creditors.

  - Debt limits by type of debt issued by the Commonwealth and its entities, while ensuring the "Comprehensive cap" is within the limit set by Section 74.4 of the Commonwealth Plan of Adjustment.

  - Coverage requirements, specifying necessary revenue requirements for debt service and coverage ratios objectively anticipated for pledged revenues.

  - Guidelines regarding the debt structuring practices for each type of debt, such as maximum term limit, maturity, payment schedule, redemption features, call and put options, line of credit, interfund and interagency borrowing, and other best practices.

  - Mandates for public disclosure to increase transparency and accountability.

- Policies and procedures will be prepared to clearly identify the roles, responsibility and objectives of various agencies involved in debt management and such roles will be publicly disclosed to increase transparency and accountability.

- AAFAF will conduct an annual review of the debt portfolio, risk assessment, and debt affordability and produce a comprehensive report on the composition of Commonwealth and public corporations' debt and financial assets, including total debt, maturity schedules, and interest rate structure.

- Audits of the Commonwealth's debt management operations, debt manager's performance, and systems and control procedures will be conducted regularly on a predetermined schedule, but no less than annually.

- AAFAF and related entities will create a working committee to ensure that key factors used by credit rating entities are adequately addressed and incorporated into the action plan for the next several years to convey a positive debt position of the Commonwealth.

- At the municipal (sub-borrower) level, AAFAF and OCFO will improve and enforce debt disclosure, debt reporting and debt analysis.

Expected results

- Implementation and enforcement of a strong debt management policy will restore Puerto Rico's capital markets access. The implementation of such a policy will serve as a symbol to

rating agencies and capital markets that Puerto Rico manages debt effectively and will meet its debt obligations.

- An effective debt management policy will demonstrate a commitment to long-term financial planning.
- Effective debt management will assist in assuring resource availability, efficiency, and fiscal capacity to effectively meet the service needs of the population of Puerto Rico.
- Long-term debt management policies will increase financial confidence in the government's policies and make it easier for businesses to invest, for the Puerto Rico economy to grow, and for the people of Puerto Rico to prosper.
- Proposed reforms for sub borrowers will (i) enhance transparency and disclosure between municipalities and their residents, (ii) increase awareness and accessibility of information, and (iii) facilitate analysis and interaction with important financial entities such as rating agencies, regulatory agencies, and other governments.

EXHIBIT 84: DEBT MANAGEMENT POLICY

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Adopt a written Debt Management Policy that is approved by FOMB**. AAFAF will develop a written policy that is comprehensive and follows guidelines from other States and recommendations provided by the GFOA, the International Monetary Fund ("IMF") debt management frameworks, and the Commonwealth Plan of Adjustment.	▪ AAFAF and FOMB	▪ March 2022
	▪ **Create a credit rating working committee**. The committee should ensure that key factors used by credit rating entities are adequately addressed and incorporated into the Policy.	▪ AAFAF and OCFO	▪ June 2022
To be completed in FY 23	▪ **Develop policies and procedures to support debt management.** Identify the roles, responsibilities, and objectives of various agencies involved in debt management and publicly disclose them.	▪ AAFAF	▪ August 2022
	▪ **Publish an annual debt management report**. The report should include the debt portfolio, risk assessment, and debt affordability.	▪ AAFAF and all Common-wealth entities	▪ October 2022, annually thereafter
	▪ **Determine audit schedule and publish a request for proposal** to procure a third party to audit debt management operations, debt manager's performance, and systems and control procedures.	▪ AAFAF and OCFO	▪ June 2023
	▪ **Audit, on a recurring basis, debt management operations, debt manager's performance, and systems and control procedures**. On a predetermined schedule that is no less than on an annual basis.	▪ AAFAF	▪ June 2023, annually thereafter

EXHIBIT 85: IMPROVING DEBT MONITORING OF SUB-BORROWERS

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Reconcile and report debt balances**. Certify each Municipality's outstanding intergovernmental payables and payment plans with government agencies and public corporations.	▪ AAFAF	▪ May 2022
	▪ **Monitor pension and intergovernmental obligations**. AAFAF and FOMB to monitor municipality intergovernmental obligations and payment plan compliance.	▪ AAFAF	▪ June 2022, quarterly thereafter
	▪ **Report Municipality debt levels**. Annual reporting to include legislative debt limits, debt repayment capacity, and upcoming debt maturities.	▪ AAFAF and OCFO	▪ June 30, 2022, annually thereafter
To be completed in FY 23	▪ **Report intergovernmental data.** Annual certification and public reporting of all intergovernmental payment plans with government agencies and public corporations.	▪ AAFAF and OCFO	▪ December 2022, annually thereafter
	▪ **Include debt analysis in the annual debt certification by OMB.** OMB to validate all 78 municipalities have budgeted for required debt payments.	▪ OMB	▪ June 2023, annually thereafter

13.3.3 Budget Best Practices

PROMESA's conditions for termination of the Oversight Board include that the Government budget in accordance with modified accrual accounting standards and that its expenditures do not exceed its revenues for four consecutive fiscal years. Meeting these conditions requires the adoption and implementation of best practices for budget development and monitoring, revenue forecasting, and accounting.

The problem

- The Commonwealth does not review forecasted revenues versus actual revenues on a frequent basis. This leaves the Commonwealth susceptible to overspending when actual revenues are lower than forecasted. Without regular and reliable budget-to-actuals reports, OMB and agencies are unable to adjust spending as needed to ensure balanced budgets.

- Revenue forecasts are not developed in coordination with the expense budget to ensure they are aligned and flexible to variations in planned spending. When revenue forecasts are too aggressive, and expense budgets are inflexible, the Government is not able to fulfill its obligations within available resources.

- Entities that manage Special Revenue Funds (SRFs) have no way of monitoring when related revenues are received or identifying SRF account balances. Moreover, some SRFs are unnecessary and should be consolidated into the GF and allocated in the annual appropriation process.

- Spending of SRFs and Federal Funds is not formally appropriated by the Government, even though it is an integral part of the Commonwealth's spending. The lack of oversight of these funds provides opportunities for misspending.

- The Commonwealth cannot easily produce a consolidated report of all revenue and expenditures, and the budget reporting process is manual, time consuming, and ripe for error.

- Commonwealth entities don't have uniform regulations to close their books. Centralized reporting is inaccurate and contains a significant number of errors due to complex and

outdated reporting systems. Reports are generally delayed by at least three months after the end of month, far longer than comparable governments.

- The Government still uses cash recognition for budgeting instead of modified accrual accounting as required by Section 209 of PROMESA.

EXHIBIT 86: BUDGET TO ACTUAL REPORT SHORTCOMINGS

Numerous errors out-standing	▪ Excludes Federal Funds (last reported January 31, 2020)
	▪ None of the reporting entities closed their books
	▪ Prolonged processing of accounts payable and encumbrances
De-centralized financial systems	▪ Central gov't agencies operate in separate financial systems: PRDE, ASSMCA, Treasury, and Environmental.
	▪ Centralized PRIFAS accounting system is not updated
	▪ 33 public corporations use completely separate financial systems
Out of 127 Entities…	▪ 21 entities do not report any data on their financials
	▪ 37 entities have reporting limitations or consistency issues
	▪ 17 entities are non-compliant with reporting requirements
	▪ 26 entities receive a GF appropriation but don't report expenses

The initiative

- The OCFO will establish a revenue committee that reviews budget to actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented economic forecasts provided by the University of Puerto Rico and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for the budget development and appropriations process.

- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments as necessary. The proposed legislation will include language to ensure a revenue source is identified prior to any spending bill enactment.

- Each quarter the OCFO will present the results of the revenue and expense budget-to-actuals variance report, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecasted revenues.

- The OCFO will propose legislation to amend Act 230-1974 to ensure OMB has authority to assign budgets for the entire Commonwealth.

  – OMB will prepare administrative orders (or propose legislation) ensuring that a consolidated budget is reviewed and certified annually. This will include all expenditures for all Commonwealth entities and will not be restricted to only the General Fund.

  – The OCFO will standardize accounting policies and procedures for month and year end financial close and develop documentation. This will standardize government-wide financial accounting processes to remove inconsistent adoption by agencies.

- OMB will develop a standardized reporting template for all Commonwealth entities (irrespective of ERP implementation). Circular letters will be drafted to ensure all entities are reporting budget to actuals timely and accurately each month.
  - A report will be developed that includes (1) all sources of revenue (not just revenue that flows through the Treasury Single Account) and (2) all expenses for all entities utilizing the standard reporting template.
  - Government-wide performance reporting metrics will be developed to support fiscal decisions.
  - The OMB will have full authority over all Commonwealth entities and report monthly consolidated budget-to-actuals for revenues and expenses.
  - Agencies and component units will report revenue in compliance with GASB standards to ensure consistent practices are used throughout the Government.
  - The budgetary basis for determining a revenue and/or expense forecast will align with the ACFR to ensure resources are utilized efficiently within each fiscal year.

- The OCFO will provide a summary of SRFs that can be consolidated into the GF and a list of SRFs that will maintain zero-balance sweep accounts.
- In collaboration with the University of Puerto Rico, OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.

Expected results

- Creating a revenue committee that meets regularly will result in more accurate revenue forecasting and help prevent mid-year budget shortfalls and overspending.
- Establishing budgetary control processes and regular budget-to-actuals reporting will ensure that spending is adjusted quickly in response to revenue shortfalls, avoiding painful budget cuts and budget deficits.
- Requiring spending appropriation bills to have a certified source of revenue, that does not conflict with any other expenses prior to enactment, will ensure that other government initiatives are not impacted. The GF will be protected and will not be used as a financing source unless there is revenue available.
- Annual certification of a consolidated budget for all revenues and expenditures will ensure that budgets are balanced, which is one of the conditions for the Oversight Board's exit.
- Increased staffing and training will enable timely, standardized budget reporting and financial analysis.
- The Government will have the timely, accurate financial data and professional skill to understand the multi-year implications of budget and policy proposals, all of which is critical for long-term fiscal planning and sustainability.

EXHIBIT 87: BUDGET BEST PRACTICES

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Establish a reporting process** that includes the Judiciary and Legislative branches.	▪ AAFAF	▪ July 2022
To be completed in FY 23	▪ **Issue circular letters** detailing reporting requirements.	▪ OCFO and AAFAF	▪ September 2022
	▪ **Prepare training materials** to support budget best practices and compliance with modified accrual.	▪ OMB	▪ September 2022
	▪ **Prepare reporting template or financial system** to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	▪ OCFO	▪ December 2022
	▪ **Enact legislation** to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment spending bills.	▪ Legislature and AAFAF	▪ December 2022
To be completed in FY 24	▪ **Prepare and present consolidated reporting**. Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	▪ OCFO	▪ July 2023
	▪ **Amend Act 230-1974** to allow OMB oversight over all Commonwealth entities.	▪ Legislature	▪ July 2023

13.3.4 Federal Funds Management

The problem

- Puerto Rico lacks a centralized financial management framework for revenue reporting, which can result in (i) misallocation of federal funds, (ii) failure to optimize available resources, (iii) information gaps regarding the availability of federal funds to agencies, (iv) ineffective cash management, and (v) deficiencies in consolidated financial statements.

- Puerto Rico's history of not using all the funds allocated to the Island limits its ability to substitute federal funds for local funds wherever possible. Puerto Rico lacks a mature mechanism for tracking and reporting available Federal Funds.

- United States Office of the Inspector General and single-audit reports have cited the failure of multiple agencies to adequately track federal funds, which has contributed to duplication of benefits and improper procurement. For example, due to inadequate accounting records and reconciliation procedures found through the 2019 single audit of the Department of Labor and Human Resources, the federal government could not validate the net position of $72.2 million in the Treasury account. This lack of proper reporting on federal grants risks the loss of federal funding.

- The Puerto Rico Department of Education is subject to a third-party fiduciary agent to ensure compliance with Federal grant requirements. A third-party fiduciary is generally required due to lack of internal controls, inadequate monitoring, and insufficient fiscal accountability.

The initiative

- Federal funds will be centrally managed within the OMB and reporting requirements will be harmonized across agencies.
  - OMB will publish bi-weekly reports of disbursements of federal funds.

  - Centralized reporting of funds will be utilized to understand which federal funds are not being optimized.
  - Agencies will be aware of all the funding made available to them from the disaster relief funds and COVID-stimulus, among other recurrent programming sources.
- All agencies will use a centralized accumulation fund to track federal allocations, obligations, commitments, and disbursements of federal funding.
- Grant revenue and expenditures and reprogramming funds will be tracked and reported monthly.
  - Agencies will use a harmonized version of the most recent GASB practices for reporting revenues

Expected results

- The consolidated grants management system will make visible the single period and recurring revenues the Government receives from grants from federal sources.
- Individual agencies and the Treasury will understand their federal allocations and the implications of maintenance of effort ("MOE"), formula funding or matching requirements of the grants. This will allow the Government to decide whether the "strings attached" to the federal grant are worth the additional revenue.
- Tracking the flow of potential and actual resources and the availability of funds for reprogramming will allow for improved utilization of the resources available to agencies and the Commonwealth.
- Agencies will have accurate accounting records and reconciliation processes surrounding federal funds. Issues such as duplication of benefits will be less frequent or eliminated with proper reporting on federal revenue and expenditures for federal grants. Other issues, such as unaccounted for funds and improper procurement procedures identified in federal audits will be less likely to occur.
- Puerto Rico will fully utilize available federal funding, providing benefits to residents and businesses and reducing pressure on local revenues to meet the Island's needs.

EXHIBIT 88: FEDERAL FUNDS MANAGEMENT

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Assign staff to OCFO with Federal Funds oversight.** The OCFO will need oversight capabilities to ensure agencies are following proper reporting, oversight practices of federal funds, and clearing agency for assuring compliance with Single Audit requirements for use of federal funds.	▪ OMB	▪ May 2022
To be completed in FY 23	▪ **Begin process of harmonizing agency FF budgeting and reporting.** Guidance on GASB accounting standards and practices should be issued to governmental departments and agencies.	▪ OMB	▪ July 2022
To be completed in FY 24	▪ **Legislate and/or regulate to ensure federal funds are always appropriated.** Legislation or regulations should give limited power to executive to appropriate mid-year or emergency funds.	▪ Governor, Legislature OMB & GSA	▪ August 2023
	▪ **Update Treasury Single Account with detailed programmatic information for federal funds**. Update chart of accounts so agencies have an understanding on federal funding sources.	▪ Hacienda, AFFAF, OMB, & Agencies	▪ January 2024

13.4 Supporting Initiatives (Time & Attendance, Cash & Bank Accounts, Procurement, Legislative Scoring, Real Estate Best Practices, and Real Property Registry)

13.4.1 Automated Time & Attendance

The Certified Fiscal Plan requires the government-wide implementation of an integrated and automated time and attendance (T&A) system that ensures only active employees who are working get paid, and thus prevents incorrect payroll payments being disbursed to employees across Government agencies. The T&A initiative includes 84 Commonwealth agencies and impacts over 36,000 employees. Although, most Government agencies and public corporations already have electronic systems for employee attendance registration in place, attendance registration systems are not integrated with payroll systems. This initiative seeks to link time and attendance systems to payroll systems.

The Automated Time and Attendance initiative solves both fiscal and operational issues by ensuring the Government has proper payroll controls. In addition to preventing fraud, it enables agencies to validate personnel assigned to offices/areas, measure compliance with assigned work schedules, and identify critical vacancies. To implement this project successfully, the project must include appropriate T&A policies, procedures, and internal controls across all agencies, as well as a communication, prevention, and accountability plan to eliminate time not recorded (TNR). The collaboration and ownership of the Government of Puerto Rico, led by the OCFO, including AAFAF, Hacienda, OARTH, PRITS, GSA and agency leads, is critical for the successful implementation and completion of the T&A project across the 84 agencies.

The implementation of the T&A project at PRDE resulted in multiple savings and benefits to the Government, including:

- Identified over 689 employees (2% of the total headcount) as inactive but still receiving payment and included in the roster, representing approximately $27 million per year in payroll.
- Reduced by 77% the number of employees who have not registered their time and attendance between November 2020 (project initiation) and February 2021 (project launch).
- Between February 28 and September 15, 2021, saved $15m from employee paychecks for time not worked.
- Increased school staffing levels, directly impacting the wellbeing of public-school students.

The timeline to complete the T&A implementation is from December 2021 until May 2024. Refer to *Exhibit 172* for agency specific timelines.

EXHIBIT 89: AUTOMATED TIME & ATTENDANCE

	Action items	Responsible party	Deadline
To be completed in FY 22	**Complete remaining steps of the T&A Project** with the Department of Health.	DOH and AAFAF	January 2022
	Complete remaining steps of the T&A Project with the Department of Education.	PRDE and AAFAF	March 2022
	Implement the T&A Project with the Department of Correction and Rehabilitation.	DCR and AAFAF	March 2022
	Implement the T&A Project with the Family and Children Administration.	ADFAN and AAFAF	May 2022
	Implement the T&A Project with the Administration for Socioeconomic Development of the Family.	ADSEF and AAFAF	May 2022
	Implement the T&A Project with the Medical Services Administration of Puerto Rico.	ASEM and AAFAF	May 2022
	Implement the T&A Project with the Puerto Rico Department of Justice.	PRDJ and AAFAF	May 2022
	Implement the T&A Project with the Puerto Rico Department of Labor and Human Resources.	DTRH and AAFAF	May 2022
	Implement the T&A Project with the Secretariat of the Department of the Family.	Secretariado and AAFAF	May 2022
	Implement the T&A Project with the Child Support Administration.	ASUME and AAFAF	May 2022
	Implement the T&A Project with the Administration for Integral Development of Childhood.	ACUDEN and AAFAF	May 2022
To be completed in FY 23	**Implement the T&A Project** with the Department of Transportation and Public Works.	DTOP and AAFAF	November 2022
	Implement the T&A Project with the Department of Natural and Environmental Resources.	DNER and AAFAF	November 2022
	Implement the T&A Project with the Public Building Authority.	PBA and AAFAF	November 2022
	Implement the T&A Project with the Mental Health and Drug Addiction Services Administration.	ASSMCA and AAFAF	November 2022
	Implement the T&A Project with the Puerto Rico Integrated Transit Authority.	PRITA and AAFAF	November 2022
	Implement the T&A Project with Department of Public Safety. Includes: DPS shared services and 5 bureaus (Fire, Emergency Medical Services, 911, Special Investigations, and Emergency and Disaster Management). Puerto Rico Police Bureau has implemented the T&A Project but is not integrated with the Central Government.	DPS and AAFAF	May 2023
To be completed in FY 24	**Implement the T&A Project** with all remaining Commonwealth entities.	All remaining agencies and AAFAF	May 2024

13.4.2 Cash and Bank Accounts Oversight and Transparency

The cash and bank accounts oversight and transparency initiative will address long-standing management and compliance issues in order to improve Government transparency and risk management, reduce fraudulent activity within Government, and institutionalize cash and bank account management processes. Currently, Government's cash and bank accounts compliance and procedures are mostly siloed and lack formal unified guidelines. Basic information such as bank account personnel roles and mapping of idle bank accounts is unclear or difficult to access due to lack of proper treasury controls and protocols. Furthermore, inefficient processes and dependency on outdated tools increase erroneous bank account activity and inaccurate cash reporting, as well as budget shortfalls and inability to properly monitor Government bank accounts.

This initiative will transform Government's cash and bank accounts processes and oversight, increase inter-agency and cross-government accountability, and unify institutionalized compliance standards. To successfully execute this initiative, the main action items taken will be (i) establish a centralized, comprehensive database, (ii) align all agencies and corporations on unified treasury guidelines, and (iii) successfully reconcile quarterly bank account forensic reports. These actions will be undertaken with cross-agency cooperation and transparency.

EXHIBIT 90: CASH AND BANK ACCOUNTS OVERSIGHT AND TRANSPARENCY

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Establish a centralized database**. Obtain all bank accounts information, account users, authorized personnel, insurance policies, and agencies' treasury management protocols. Database to include all bank accounts that are currently being reported on a monthly basis by AAFAF as well as the following: Legislative Branch, Judicial Branch, Municipal Funds (custodian funds), Government Development Bank, Investment Accounts, and any bank accounts required to be opened as a result of the confirmation of the Plan of Adjustment.	▪ PRDT, OCFO and AAFAF	▪ June 2022, updated monthly thereafter
To be completed in FY 23	▪ **Establish agreement between FOMB and AAFAF** on variances in quarterly forensic cash and bank accounts analysis reports.	▪ PRDT, OCFO and AAFAF	▪ August 2022
	▪ **Eliminate all idle and unnecessary bank accounts**	▪ PRDT, OCFO and AAFAF	▪ September 2022
	▪ **Sweep all closely held Component Unit cash into the TSA** and eliminate third-party bank accounts.	▪ PRDT, OCFO and AAFAF	▪ November 2022
	▪ **Establish appropriate direct access to bank account information** (i.e., online portals) for any remaining accounts that are not swept into the TSA.	▪ PRDT and OCFO	▪ December 2022
	▪ **Draw conclusions and produce unified guidelines** for treasury procedures and cash management to serve as a "true north" for Government's continued efforts in this initiative.	▪ PRDT, OCFO and AAFAF	▪ June 2023

13.4.3 Procurement Best Practices

While the Uniform Purchasing regulations issued pursuant to Act 73-2019 made significant progress centralizing and modernizing Puerto Rico's procurement processes, the Government's procurement system still lacks full transparency and does not adequately guarantee Puerto Rico is purchasing goods and services on the most economical basis. The Fiscal Plan recommends several actions to further improve procurement policies and practices:

- The GSA should assume broad supervisory authority over all entities exempt from centralized procurement processes under Act 73-2019 and Regulation 9230 to ensure that they have implemented effective guidelines for the purchase of goods, works, and nonprofessional services.
- Apply a centralized, systematic procurement process for recurring municipal government services such as waste collection, sanitation, and road maintenance to promote efficient and cost-effective contracts. This transparent contracting process should be coupled with the establishment of robust and efficient oversight mechanisms by the Puerto Rico Central Government or any government entity tasked with oversight functions.
- Apply better buying practices through the implementation of Strategic Sourcing strategies by leveraging agencies' collective buying power and acting as a single enterprise to negotiate with contractors. Strategic Sourcing will allow the Government to realize savings through

economies of scale. This will require analyzing the Government's spending across agencies and using that information to make improved decisions. For the Central Government, the greatest opportunities for the implementation of Strategic Sourcing are in the procurement of professional services, particularly in the following areas: (1) Strategy Consulting, (2) Special Services, (3) Financial Services, and (4) Technology Services. From FY2017 through FY2021, professional services contracts corresponding to these four categories have represented a combined total cost of $2.4 billion. As such, considering an average annual cost of $600 million for these four categories and realistic savings derived from the use of Strategic Sourcing ranging from 1% to 5%, this initiative can represent estimated annual savings ranging between $6 million and $30 million.

- Amend Act 237-2004 to promote competitive procurement processes for professional services in accordance with best practices.
- Complete the implementation of an eProcurement portal to allow both taxpayers and bidders to have access to information surrounding bids and awards. Such a portal will provide an additional level of oversight on procurement activities and build taxpayer trust in the purchasing system.
- Take affirmative steps upon conclusion of the procurement phase to ensure that awarded contracts are adequately managed and that accountability is promoted by all contracting parties. Specifically, assign intra-agency contract managers to oversee the implementation of contracts and keep detailed and accurate descriptions of rendered services or purchased goods, to ensure these are satisfactorily performed or delivered **prior to the payment of invoices.**
- Implement a **uniform contracting policy** which shall apply to **all government entities** and encompass the following principles:
  - Contracts (inclusive of Purchase Orders) should be drafted in such a way that the contracted services are described clearly and specifically so that both the agency and the contractor know exactly what is expected of them pursuant to the contract, and so that the agencies with oversight responsibilities can carry out their audits and revisions in a uniform manner. In that regard, **template contract models** for recurring purchases or services, such as, for example, employee health insurance, legal advisory services, or maintenance services, should be implemented across all government entities to ensure that all government entities adhere to the same contracting principles.
  - To promote adequate transparency in the provision of recurring services, contracts should include a clause that specifically outlines recurring tasks and requires specific information regarding the actual tasks performed. This requirement may be complied with by providing any statistical data, or information certifying the performance of services, to allow confirmation of such performance by any overseeing persons or entities.
    - Further, contracts should contain a clause stating that vague descriptions of provided goods or performed services that do not provide exact descriptions of such goods and services will be deemed **unacceptable** and will not be subject to payment until a full description (as detailed in the specific contract) is provided in a manner which is satisfactory to the contracting government entity.
  - All contracts should clearly delineate a process by which a government entity may question an invoice and which allows contractors to formally respond to any such questions. In addition, contractors should not be permitted to correct or fix invoices without formal, **written** acknowledgement that (i) an initial invoice was submitted, (ii) the pertinent government entity did not fully consent to the same, and (iii) a modification was requested by the government entity. This will allow more effective oversight when reviewing contracts and invoices, while allowing for a proper evaluation of whether contract overseers within a

particular agency are properly reviewing contractor's invoices and taking the necessary actions to ensure contracted services are actually performed or purchased goods were delivered, as originally contracted.

EXHIBIT 91: UNIFORM PURCHASING AND PUBLIC PROCUREMENT

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Update Act 73-2019 Uniform Purchasing Guidelines** that would fix and address smaller technical issues surrounding competitive purchases, exempt entities and other technical changes.	▪ Governor and Legislature	▪ June 2022
To be completed in FY 23	▪ **Produce first draft of updated procurement regulations.** Modifications should address previously identified issues to bring Puerto Rico in-line with best practices.	▪ GSA	▪ September 2022
	▪ **Respond to input from stakeholders.** Stakeholders, including FOMB, can provide comment to GSA on the proposed regulations to help ensure they meet best practices for public procurement.	▪ GSA and Government wide	▪ March 2023
To be completed in FY 24	▪ **Issue new guidance detailing modified procedures to agencies.** GSA should give roughly 6-months for agencies to begin adopting new procurement rules and regulations.	▪ GSA and other stakeholders	▪ November 2023

13.4.4 Non-Partisan Legislative Scoring

Ensuring that the Office of Legislative Services (OSL) performs duties as an independent, nonpartisan legislative scoring entity that produces budget analysis and revenue forecasts is crucial to enabling legislators to enact fiscally responsible policy choices. Responsibilities required under Law 101-2017 include preparing fiscal, economic, environmental, and/or social impact studies on any proposed bills when requested by a legislator. Currently, however, the established agency has instead taken on more of a clerical role while the preparation of such analyses has been neglected. Furthermore, the role of the Office of Legislative Services should be expanded to include budget analysis and economic and revenue forecasting for the Government every 1-2 years at a minimum.

To ensure legitimacy in budgetary decisions, the agency must commit to the nonpartisan staffing of career professionals who are independent of the influence from personal conflicts of interest. The staff should be career civil servants, not temporary political appointees. Developing a strong, independent Legislative Fiscal Office will help Puerto Rico's legislators and political decisionmakers understand the Commonwealth's current fiscal position and how that position would be affected by policy alternatives.

EXHIBIT 92: LEGISLATIVE SERVICE AGENCY

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Study state agencies with similar mandates**. Refer to examples in U.S. states for their agencies' responsibilities, organizational structures, Legislative mandates, staffing, and budgets.	▪ Legislature[1]	▪ June 2022
	▪ **Determine appropriate objectives, structure, and staffing level for the agency.**	▪ Legislature	▪ June 2022
To be completed in FY 23	▪ **Establish a legislative requirement** that all legislation meeting determined parameters undergo a fiscal impact assessment prior to floor consideration.	▪ Legislature	▪ December 2022
	▪ **Enact additional legislation** required to create and fund a legislative services agency empowered to do this work.	▪ Legislature	▪ December 2022
	▪ **Prepare training materials** to support budget best practices and compliance with modified accrual.	▪ Legislature	▪ June 2023
	▪ **Hire the appropriate staff**. A non-partisan, career professional staff is crucial for producing creditable forecasts and analyses.	▪ Legislature	▪ June 2023

1. The Legislature (both the House of Representatives and Senate) should identify appropriate committees / agencies to complete these tasks.

13.4.5 Real Estate Best Practices

The real estate asset management reform initiative will address long-standing revenue, budgeting, and capital forecasting issues across the Government's real estate holdings in order to improve efficiencies in the overall maintenance and value preservation of the portfolio.

The Government currently owns approximately 16,800 real properties and parcels of land (~4,100 buildings and ~ 12,700 land parcels). These holdings consist of more than 70 million square feet of office space and more than 340,000 acres of land. The Government does not currently have a standardized approach for accounting, tracking, managing, and disposing of its real estate assets. Associated primary issues include properties with expired leases paying on a month-to-month basis or no rent at all; reactive versus proactive management of required maintenance and repairs; properties achieving significantly below market rent levels; limited insight into projected future capital expenditure needs; lost opportunities for high value disposition of portfolio properties; and increased exposure to legal liability for mismanagement of hazardous structures and other life safety considerations.

A standardized real estate management process operated by dedicated asset management personnel or a third-party real estate partner would address and solve many of the inefficiencies at hand, while maximizing the aforementioned financial factors broadly. These reforms would increase the overall value of the Government's real assets while maximizing the potential revenues associated with these properties over the long-term. Furthermore, the normalization of operations from a budget and forecasting standpoint will allow stakeholders to better plan for, and react to, the unforeseen major events that may occur over a decades-long time horizon while significantly impacting the portfolio.

EXHIBIT 93: REAL ESTATE BEST PRACTICES

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Benchmark existing asset management processes and systems**. FOMB will benchmark existing asset management systems related to real estate as part of a larger gap analysis to identify and understand existing efficiency gaps related to the management, maintenance, and capital improvement of the Commonwealth's real estate.	▪ AAFAF	▪ May 2022
	▪ **Create a corrective plan of action to address gaps in existing asset management.** Leveraging the findings of the prior task, the FOMB will work with advisors to draft a plan to implement recommended changes and efficiencies within the management of the portfolio.	▪ AAFAF	▪ June 2022
To be completed in FY 23	▪ **Identify relevant IT implementations.** Identify the available asset management tools in the marketplace that can increase accounts receivable, decrease remittance delinquencies, and allow for more accurate forecasting and budgeting across the portfolio.	▪ PRITA	▪ August 2022
	▪ **Create a quarterly asset management reporting protocol**. Establish a quarterly cycle of reporting on real estate related cash flows, capital events, and budgetary forecasts to be distributed to all stakeholders across the Commonwealth.	▪ AAFAF and all stakeholder Commonwealth entities	▪ September 2022, quarterly thereafter
	▪ **Modernize lease administration**. All Commonwealth entities have up to date, signed, and digitized leases in their existing asset management database.	▪ AAFAF	▪ December 2022
	▪ **Normalize repairs, maintenance, and capital forecasting**. All Commonwealth properties have detailed maintenance and repair plans as well as 10 to 20 year capital expenditure plans.	▪ AAFAF	▪ June 2023
	▪ **Normalize asset management systems and marked increase in operational outputs**. Portfolio properties have been 60% revenue increase as identified against market rents, with efficient accounts receivable plans implemented while securing 80%+ of contracted lease revenues across the Commonwealth's existing real estate.	▪ AAFAF	▪ June 2023, quarterly thereafter

13.4.6 Real Property Registry

The real property registry initiative will address the problems associated with the antiquated land court-based system of property registration currently in place, removing barriers from real estate transactions and reducing ambiguity of ownership.

The land registration process involves multiple steps and the potential for delay is substantial. The present state of property records does not provide a timely tool for confirming legal title to a large portion of properties on the Island and there is no mechanism for verification, particularly for parcels which have been informally developed. Further, legal proceedings are ponderous, the system is slow to resolve cases and is an impediment to efficient functioning of land markets.

This initiative, which builds on Section 9.3 of the 2021 Fiscal Plan, will assure that ownership of property is accurately identified, provide detailed information on titles and deeds for use in the transfer of property, and assure that relief funding reaches all intended beneficiaries. To successfully execute this initiative, the actions taken will be (i) implement streamlined property registration and recordation protocols, (ii) establish a comprehensive database that registers all properties on the Island, (iii) and close the backlog of pending registration cases.

EXHIBIT 94: REAL PROPERTY REGISTRY

	Action items	Responsible party	Deadline
To be completed in FY 22	▪ **Review legislation**. Involve appropriate parties from the legislature, DOJ, and municipalities.	▪ Legislature, DOJ and municipalities	▪ June 2022
	▪ **Establish parcel identifiers**. Collect property information from DOJ, CRIM, and PRPB and deploy identifiers that are common across databases.	▪ DOJ, CRIM and PRPB	▪ June 2022
To be completed in FY 23	▪ **Develop a uniform parcel registry**. Include all properties that are already registered.	▪ DOJ	▪ February 2023
To be completed in FY 24	▪ **Implement property registry platform**. To reduce time required to register land/property ownership and develop protocols to transition and harmonize land recordation with land registration.	▪ DOJ	▪ January 2024
	▪ **Eliminate transaction backlog.** To allow for accurate reporting of ownership.	▪ DOJ	▪ April 2024

Chapter 14. Reprioritizing agency spending to enable investments

In accordance with Section 201(b)(1) of PROMESA, the Fiscal Plans for Puerto Rico "provide a method to achieve fiscal responsibility and access to the capital markets." When the Fiscal Plan process began in 2017, the Government had approximately 16,500 employees across 123 Executive, Legislative, and Judicial branch government agencies, excluding large instrumentalities.[255,256,257] These agencies **were ineffective and inefficient at delivering the services needed by the people of Puerto Rico, while consuming resources that were outsized compared to the population served.**

Even now, compared with U.S. states serving similar populations, Puerto Rico remains an outlier in terms of the sheer number of agencies. For example, as of 2018, Connecticut had only 78 state agencies, while Iowa had just 36. Staffing and managing an organization of this size is highly challenging and complex, even in a stable fiscal and economic environment. With over 100 direct reports to the Governor, it has been a practically impossible management task. **In addition, notwithstanding the amount of spending, there are countless examples of subpar service delivery across the Government.** For instance, despite having six agencies primarily dedicated to the financial stewardship of the Island, the Government has been unable to consistently issue consolidated audited financial statements on a timely basis. Further, Puerto Rico's education system has a record of consistently delivering unsatisfactory student outcomes, including below- U.S. mainland average graduation rates and standardized test scores that are far below basic proficiency levels.

[255] These include Puerto Rico Electric Power Authority (PREPA), Puerto Rico Aqueduct and Sewer Authority (PRASA), Highways and Transportation Authority (HTA), University of Puerto Rico (UPR), Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC, by its Spanish acronym), and the Government Development Bank (GDB)

[256] Excludes transitory employees.

[257] Excludes agencies which currently have $0 operating budget and no employees.

To assure the delivery of essential services while achieving financial sustainability, the Government must focus on operational efficiencies to enable better service delivery in a cost-effective way. A leaner, more efficient, and transformed future Government of Puerto Rico should wherever possible reflect mainland U.S. benchmarks in terms of both number and size of agencies.

As part of the new Government model, the Government must conclude the process of consolidating the over 110 agencies into no more than 49 groupings or consolidated 213 agencies (see *Section 25.2*). In some cases, these consolidations should better focus the competing efforts of multiple agencies, such as the Economic Development grouping, which is consolidating ten agencies into one. In other cases, the consolidations should serve to move services closer to residents, such as the Healthcare grouping, which will consolidate access points to important services like Medicaid. In all cases, consolidations will enable agencies to streamline back-office processes, eliminate duplicative resources and benefit from procurement efficiencies.

In addition to agency consolidations, the 2022 Fiscal Plan outlines operational and process improvements that must be made to use resources more efficiently—including staff, equipment, services, and buildings—across agency groupings such as Education (PRDE), Corrections (DCR), Health (DOH), and Public Safety (DPS). The goal of such efficiency measures is to improve the quality of the underlying services for the population while also directing valuable resources toward priorities and achieving the cost savings needed to balance the Government budget.

These measures were developed through an iterative process with the Government and are designed to ensure compliance with necessary savings targets without compromising the quality of public service delivery on the Island—and actually improving it in many cases. These include various agency-specific efficiency (rightsizing) measures as well as certain government-wide savings measures:

- **Agency-specific personnel measures**: Personnel efficiencies specific to each agency (e.g., back-office consolidation, process re-engineering to enable headcount rightsizing and aligning resources with mainland U.S. state benchmarks) that will enable the reduction of payroll expenditure levels
- **Agency-specific non-personnel measures:** Operational efficiencies specific to each agency (such as procurement centralization and optimization of spend, consolidation of facilities) that will enable the reduction of non-payroll expenditure levels
- **Government-wide compensation measures:** Standardization of personnel policies throughout government (including institution of a standard employer healthcare contribution, a hiring freeze, a payroll freeze, elimination of the Christmas bonus and prevention of carryover of sick/vacation days beyond the statutory caps) to enable the reduction of payroll expenditures across agencies even without reducing employees

Government-wide non-personnel measures: Utilities efficiency improvements and conscious usage of electricity and water (e.g., PREPA and PRASA) to result in savings on utility expenses. Further, reductions of professional services to enable the professionalization of the civil service and reduce reliance on outside consultants. Finally, elimination of 'englobadas,' or less transparent spending to improve fiscal controls and accountability.

- **Budgetary adjustments and other funding:** Adjustments made on an annual basis to reflect new information obtained during the budget process. These include funding to ensure Government agencies meet federal requirements (e.g., consent decrees), provide quality front-line service delivery, and to reflect changes in agency operating needs.
- **Investments:** Agency-specific one-time or recurring funding provided to enhance service and improve the fiscal and financial management of the Government (such as the Pilot phase of the CSR), to improve the tourism and economic activity of the Island, provide quality front-line service delivery (by continuing to fund pay raises to teachers, firefighters, police), enhance

growth and labor productivity (such as through scholarships for UPR students, and funds for workforce development programs) and focus on implementation of efficiency measures.

To date, the Government has unfortunately failed to demonstrate meaningful progress in implementing agency consolidations or otherwise improving operational efficiency, though it has generally met budget targets. The Government has also struggled to properly activate several investments provided by the Oversight Board.

To achieve personnel savings, the Government has primarily utilized broad-based early or incentivized retirement programs (e.g., the Voluntary Transition Program and Voluntary Pre-Retirement Program),[258] (Law 211-2015, as amended)), instead of driving optimization of back-office roles[259] or alignment of front-office roles with mainland U.S. states' benchmarks (e.g., State Elections Commission personnel). Furthermore, the Government's efforts through these untargeted retirement programs have encouraged critical personnel to retire early leading to large payouts with high retirement rates, major gaps in skills and capabilities, and a slower, less effective government.

To achieve non-personnel savings (required since FY2018), the Government started to make changes during FY2021 to its procurement processes. FY2021 was the first year that the General Services Administration (GSA) received a General Fund allocation to carry out procurement centralization. The agency has managed to centralize some contracts and has begun to transition procurement employees across Central Government agencies. The GSA has also started assessing Government-wide procurement needs to attain efficiencies and achieve savings. Despite this consolidation of certain contracts across agencies, GSA claims it will take additional time to complete procurement centralization and achieve material savings. Additionally, procurement efforts have not been appropriately aligned with the consolidation of physical locations of operations, causing inefficient spending to continue longer than necessary. For example, utility expenses at closed schools have largely continued even though the schools are unused, and officers continue to be staffed to guard closed correctional facilities.

Finally, some funds have gone unspent or been utilized ineffectively. While there is some progress—DCR, for example, has successfully used funds provided to start its review of habitable spaces to enable prison consolidations, and salary raises have been provided to frontline police officers—there have been struggles in implementing many investments. For example, PRDE misspent funds for raises to teachers and directors in FY2019 and FY2020, leading to a costly lawsuit and delays in providing raises. Funds for healthcare IT and capital expenditures have largely been undisbursed, though the procurement process has been initiated for most initiatives. And funds provided for FEMA Disaster Relief Funding cost share have been redirected to other uses, such as funding to cover state share of projects that are not disaster related. These are just selected examples among many. To truly enhance efficiency and effectiveness, these funds should be deployed – and deployed correctly – as soon as possible.

In addition to the above, the FY2021 budget included $73 million of implementation budget incentives for PRDE, DCR, DDEC, DOH, Hacienda, and AAFAF to accelerate transformation of core government services and encourage progress in high priority areas, including but not limited to meeting higher data quality and transparency standards, conducting operating model/capacity analyses, and building up essential infrastructure to facilitate process improvements. Agencies that completed full implementation of certain required actions for specific projects by the stated deadline would be eligible to receive budget incentives upon certification by the Oversight Board. DDEC and AAFAF completed the required actions within the determined deadline, making them eligible for the budget incentive. However, PRDE, DOH, and Hacienda did not meet the

[258] Law 211-2015, as amended

[259] e.g., Through reduction of duplicate administrative roles in DCR or centralizing back-office operations in the Office of the Chief Financial Officer (OCFO)

requirements to comply with the implementation of required actions within established deadlines. As such, these agencies lost the budget incentive. Many agencies like DOH and DCR, on the other hand requested a deadline extension for the budget incentive due to delays in their procurement processes.

The 2022 Fiscal Plan allocates a $1 million budget incentive in FY2022 for PRDE to incentivize the development of a template and methodology for evaluating school performance.

The implementation of 2022 Fiscal Plan initiatives and measures is required to achieve operational efficiency and improve government services. More than ever, given the significant influx of federal funding received as a result of natural disasters and the COVID-19 pandemic, all agencies must develop a long-term financial plan by December 2021 to serve as a concrete working plan to allocate State and federal resources in order to meet short and long-term objectives. A comprehensive long-term financial plan must have clear milestones, deadlines and actions that account for agency needs (short and long-term), while also focusing on implementing crucial agency efficiencies detailed in this chapter.

14.1 Agency operational efficiencies and improvements

The 2022 Fiscal Plan continues to outline savings the Government is expected to achieve through both agency-specific and government-wide personnel and non-personnel measures.

14.1.1 Agency-specific personnel and non-personnel efficiency measures

There are several actions that have been applied to each agency to achieve these targets:

- **A series of agencies must be merged** when benchmarking and best practices determine that activities across agencies could be better served through a single mission and management to eliminate redundancies, and/or where economies of scale make shared services more economical without reducing quality of service
- **A small subset of agencies will be left independent but must be made more efficient** through a series of streamlining efforts related to both personnel and operations, allowing the agencies to provide improved services at a lower cost to taxpayers
- **Some agencies will be closed completely or privatized** if their function and programs are not required, or can be transferred to private ownership, resulting in a 100% personnel and non-personnel savings for all non-federal funded expenditures after a two to three-year wind-down period (a minimum of 50% savings must be achieved no later than year two). The Government proposed three agencies for closure: Model Forest; Culebra Conservation and Development Authority;[260] and Company for the Integral Development of Cantera's Peninsula;[261];
- Additionally, the 2022 Fiscal Plan requires **the transfer of ownership or change in legal status of the Public Broadcasting Corporation (WIPR)** to a not-for-profit organization.

The 2022 Fiscal Plan lays out three major types of areas of operational efficiency across all agencies (whether consolidated or kept independent, but made more efficient):

[260] Agency will only be partially closed, so funding will be reduced by 32% overall starting in FY2020. No progress to date

[261] To be closed on July 1, 2033 per current law.

- **Back-office personnel savings:** Achieve process efficiencies, centralization, and/or digitization of redundant tasks and eliminate role duplications in administrative positions. These levers have demonstrated savings of 15-20% in entities undergoing mergers
- **Front-office personnel savings:** Achieve personnel efficiencies by ensuring staffing levels are consistent with operational drivers with benchmarks from mainland U.S. states
- **Procurement/non-personnel savings:** Achieve operational efficiencies through contract renegotiations, reduction of rent payments, bundling acquisition across agencies, and other initiatives. Similar reforms of this nature have been shown to create savings of 10-15% for public and private sector entities

The Oversight Board and the Government established a working group in 2018 to develop the roadmap for these rightsizing efforts, which became the basis for the Fiscal Plans. For several of the larger agency groupings (i.e., PRDE, DOH, DPS, DCR, DDEC, and OCFO), the 2022 Fiscal Plan lays out specific reforms that are expected to be implemented in each of these areas. For other agencies, the 2022 Fiscal Plan sets savings targets that agencies are expected to achieve through their own operational improvement plans. Finally, while the Government has indicated that some consolidation plans may change, the Government shall still be responsible for achieving the total annual savings projected in the 2022 Fiscal Plan.

Furthermore, Act 73-2019, as amended, requires all Government entities to prepare an Annual Procurement Plan based on the agency's annual estimate of probable needs and purchases, using as reference the purchases made during the previous fiscal year. The plan must include a list of all goods, works and non-professional services that are considered necessary for the next fiscal year. GSA is responsible for publishing annual guidelines for the preparation of such plan, which must be submitted to GSA by March 31st of each year. Going forward, all agencies must comply with this requirement, which in turn will allow them to obtain an understanding of the purchases to be made during the year, identify potential savings, ensure compliance with budget targets, and flag opportunities to improve current processes and procedures. Although Act 73-2019 does not require the agencies to prepare a plan for annual professional services, they must in fact prepare a similar plan that details all professional services to be contracted by them during the fiscal year in order to obtain similar benefits.

14.1.2 Cross-cutting personnel measures

In addition to driving operational improvements specific to service delivery, the Government is expected to achieve cross-cutting personnel expenditure reductions through several initiatives which would reduce the requirement to reduce personnel:

Maintaining a payroll freeze: The March 2017 Fiscal Plan included a measure (which became law in FY2018) to freeze all payroll expenditures. To extend the savings from freezing payroll increases and minimize further rightsizing of staff, the freeze must be continued through the end of FY2023.

Standardizing healthcare provided to government employees: Medical insurance is a core benefit provided to all government employees. However, the degree of coverage varies widely across government agencies, with some employees receiving superior coverage compared to their peers. For instance, PRDE employees receive an average of $120 per month in medical benefits, whereas employees of the Housing Finance Authority receive on average over $730 per month.[262] To ensure fairness and reduce expenditures, the Government must implement its proposal to **standardize employer health insurance contributions so that all Commonwealth agencies contribute $125 per employee per month, or $1,500 per year.**[263] This initiative should have been fully implemented by the start of FY2019, but the Government has

[262] Per latest FY2021 Housing Finance Authority payroll roster.

[263] The exception is public corporations, which should maintain current employer contribution levels for those employees with chronic pre-existing conditions. There are also exceptions based on the recent Plan Support Agreement.

failed to implement it to date. Compliant with the 2022 Fiscal Plan, the annual budget includes an appropriation to cover the healthcare contribution up to $125 per employee per month.[264]

Reducing additional outsized non-salary compensation paid to employees: There are several policies that the Government must continue to enforce through the duration of the 2022 Fiscal Plan that will impact personnel spend. These include:

- Asserting a hiring freeze with stringent requirements for backfilling positions left open by attrition or workforce reduction
- Limiting paid holidays to 15 days annually across all public employees
- Prohibiting carryover of sick and vacation days between fiscal years over the statutory caps (60 days for vacation and 90 days for sick leave, aligned with Act 26-2017)

Prohibiting any future liquidation of sick and vacation days in excess of the number of days permitted by law

The hiring freeze measure has been included in the Fiscal Plans since the March 2017 Fiscal Plan. The 2022 Fiscal Plan continues to require the policy, while also requiring the Government to propose stringent requirements for the backfilling of any opened positions, and to gain budgetary approval by the Oversight Board before the requirements are implemented.

14.1.3 Cross-cutting non-personnel measures

In addition to driving operational improvements specific to service delivery, agencies should reduce spend on utilities, as well as on other areas of the budget which have been historically "opaque" in terms of where funds are flowing:

- **Reducing utility spend over time:** The Government should implement energy efficiency initiatives that reduce utility payments in line with mainland energy efficiency efforts such as the U.S. Federal Energy Management Program (FEMP). Energy efficiency initiatives would include facility & fleet optimization (e.g., recycling), improved procurement agreements, and strategic investments, potentially through utility capital expenditure. By FY2023, the Government must achieve savings of 15% on its FY2018 utilities expenses, considering the rate increases projected by PREPA and PRASA. While savings associated with this measure were paused for FY2021, they have been reinstated for FY2022.
- **Reducing spend on historically low-visibility areas:** The Government should continuously monitor and reduce expenses in historically low-visibility areas (e.g., "unclassified professional services" and "englobadas"). The 2019 Fiscal Plan required a one-time and government-wide 10% incremental cut on professional services spend and 10% limit to unclassified professional services. While no incremental cut is explicitly required in FY2021, the Oversight Board continues to expect more rigorous documentation and justification for such spending before approving its inclusion in future agency budgets. The 2022 Fiscal Plan will maintain the 10% limit on unclassified professional services.

As with prior Fiscal Plans, the 2021 Fiscal Plan included implementation exhibits that date back to Fiscal Plans certified in 2018. These exhibits continue to show implementation dates that have been passed without Government completion of the action. The Government must act as soon as possible to address these missed milestones and to accelerate the pace of change. The 2021 Fiscal Plan therefore laid out future dates for missed milestones, by which the Government must implement the actions.

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[264] The exception is public corporations, which should maintain current employer contribution levels for those employees with chronic pre-existing conditions. There are also exceptions based on the recent Plan Support Agreement.

14.2 Investing to support agency efficiency and recovery

The 2021 Fiscal Plan included new incremental funding to support the Government in its efforts to operate effectively and sustainably. The 2022 Fiscal Plan maintains this incremental funding. Specific funding includes:

- **Investments in frontline service delivery:** The 2022 Fiscal Plan maintains several incremental investments in frontline service delivery, including compensation and benefit raises for police officers, support for Special Education therapy, and teacher compensation; funds to attract additional recruits to the Emergency Medical Services Corps and Institute of Forensic Sciences; and investments in healthcare, including funds for opioid treatment, telehealth, electronic health records, hospital capital expenditures, scholarships for medical students who commit to practice outside of major metro areas, and additional school nurses.
- **Support for accelerating operational improvements:** The Government's lack of progress on operational changes to date has created a risk to government services delivery, especially given the effects of the recent earthquakes and COVID-19. The 2022 Fiscal Plan maintains implementation budget incentives that would become available when certain milestones are accomplished (e.g., consolidation of back-office functions).
- **Funding to enable consent decree compliance:** Several Puerto Rico Government agencies are subject to federal consent decrees that require them to adhere to certain regulations. These consent decrees often mandate funding requirements (e.g., certain funding levels to Special Education students). The 2022 Fiscal Plan maintains funding for all consent decree requirements of which the Oversight Board is currently aware.
- **Funding for agency priorities:** The Government's proposed initiatives include investment such as the fourth phase of "Abriendo Caminos" infrastructure improvement program and additional funding for regular maintenance programs for the road infrastructure (Department of transportation and public works), hire additional personnel for Specialized Domestic Violence, Sexual Crimes and Child Abuse Units (Department of Justice), and increasing funding for the Comprehensive Cancer Center.
- **Funding for CSR:** The 2022 Fiscal Plan maintains funds for Government-wide CSR, as discussed in *Section 13.2.2*. This funding is intended to enhance training, performance management, recruitment, and retention of Government employees, and thereby professionalize the public workforce.

Specific investments are detailed by agency in the following sections.

14.3 Department of Education (PRDE)

The Puerto Rico Department of Education (PRDE) is the largest government agency within the Commonwealth, with approximately 44 thousand employees, charged with providing high quality education for approximately 276 thousand K-12 students across the Island at 858 schools. However, as *Chapter 8* indicates, PRDE has struggled to improve educational outcomes for its students and to operate at a size commensurate to its student enrollment.

As discussed in *Chapter 8*, a significant factor driving PRDE's subpar outcomes is a set of underlying bureaucratic systems and structures that are ineffective and inefficient. Simply stated, PRDE has not developed the internal capacity, or led with commitment to a clear plan to manage the complex educational dynamics in Puerto Rico. As the largest agency by both personnel headcount and budget dollars, PRDE is outsized relative to its results and needs. While student enrollment has declined considerably over the past few decades (over 50% decline since its peak in 1980 and approximately 33% in the past decade) in line with a declining population, prior to the March 2017 Fiscal Plan, the number of schools and teachers had not decreased

proportionally.[265,266] Furthermore, although regional offices are up and running, they currently function more as an additional layer of bureaucracy, rather than as mechanisms to drive change and shared learning closer to the student and parent populations in schools.

The Oversight Board has made a number of suggestions to help PRDE operate in more strategic ways while aiming to fulfill its core function of driving a more efficient and cost-effective educational delivery model. The one year pause on agency efficiency measures during FY2021 presented PRDE with the opportunity to start implementing necessary reforms; however, the Department was unable to move these initiatives forward, in part due to its focus on managing through the operational challenges faced during the COVID-19 pandemic and the significant leadership turnover during the election year.

Upon preliminary review of PRDE personnel and non-personnel expenses for FY2021, it would appear that PRDE achieved some savings (e.g., the number of core teachers is aligned to 2021 Fiscal Plan targets); however, these are known to be the result of low teacher staffing levels in some areas and increased vacancies due to the remote learning environment rather than adherence to the structural changes required by the 2022 Fiscal Plan. The Oversight Board anticipates the level of savings and budget underspending to decrease as PRDE resumes full in-person instruction. In addition, the Department has not achieved progress in increasing the academic support in the regional offices or executing planned workforce reductions in other areas. This effect was deeply felt by the school community during the COVID-19 pandemic since many critical schools supports (e.g., teacher coaches or "facilitadores", family engagement coordinators) were significantly lacking. At the same time, PRDE continues to have a deficit in some academic areas such as English. Currently, PRDE does not have an adequate number of English teachers to support students across the Island, which in turn result in schools that are sub-scale and require targeted resources, on a per student basis.

The Oversight Board recognizes that PRDE has been operating in a complex environment in the wake of Hurricanes Maria and Irma, earthquakes, and the ongoing COVID-19 pandemic. However, beyond these crises, PRDE continues to be challenged by its bureaucratic processes and the significant lack of system capacity that hinders its ability to implement necessary reforms. While *Chapter 8* offers recommendations and benchmarks to improve management capacity of the system and, in turn, student outcomes, this chapter focuses on the operational and financial process improvements required to support increased transparency and better decision-making at PRDE. While agency efficiency measures are applied to the State budget, PRDE needs to unlock and strategically allocate all sources of funding. This will only be possible if PRDE has clear insight to its existing spend through improved financial reporting processes.

During FY2021, PRDE was able to finalize and sign the Third-Party Fiduciary Agent (TPFA) contract (related to Special Conditions imposed by the U.S. Department of Education (USDE) in June 2019). Failure to finalize the contract in prior years (based on PRDE's inaction) had prevented PRDE from accessing ~$1.12 billion total from FY2021 and FY2020 USDE federal funds. However, the Oversight Board, and the Government of Puerto Rico, now expect these funds to be released during FY2022. In addition to these recurrent federal funds, PRDE received an unprecedented allocation of federal funding in FY2021 as a result of the COVID-19 pandemic and prior natural disasters. Incremental federal funds available to PRDE include:

- ~$2.3 billion of disaster relief funding designated by FEMA to support reconstruction of damages caused by Hurricane Maria.
- ~$4.5 billion of COVID-19 related federal funding meant to address high priority needs associated with planning for a safe return to school and offering robust learning opportunities

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[265] Helen F. Ladd and Francisco L. Rivera-Batiz, "Education and Economic Development in Puerto Rico" The Puerto Rican Economy: Restoring Growth, Brookings Institution Press, Washington, D.C., 2006, 189-238

266 There were 1,619 public schools in 1990 and 1,131 at the time of reporting. Oversight Board Listening Session, Secretary Julia Keleher, "On the Road to Transformation," November 30, 2017

in the case of extended in-person school closures. This amount includes various stimulus, such as:

- ~$349 million of Coronavirus Aid, Relief, and Economic Security Act (CARES) funds
- ~$1.3 billion of the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act
- ~$2.9 billion of the American Rescue Plan (ARP) Act

- A portion of the ~$173 million allocated to the Governor's Emergency Education Relief Fund, authorized by CARES (~$48 million) and CRRSA (~$125 million).

The above funding will require a clear plan and rigorous controls to provide for the basic needs of students and families, nonetheless, these are not meant to reduce the expectation that the Department accelerate a major transformation of its operations and basic management improvements to better provide services and maintain fiscal balance. Without active management, operational improvements, and leadership, PRDE will likely continue to see student outcomes stall.

The initiatives and milestones included in this chapter aim to provide a roadmap for PRDE to improve its operational efficiency and achieve savings targets required by the 2022 Fiscal Plan. **It is important to note all these initiatives were developed in collaboration with the Government and/or are based on PRDE's internal guidelines and regulations.** Given the immeasurable effects of the COVID-19 pandemic and other natural disasters on student learning, there has never been a greater need to drive operational process improvements and strategically reallocate resources to provide better services to the children of Puerto Rico.

Investments to drive operational improvements

The 2022 Fiscal Plan continues several investments that have been made in past years to ensure PRDE has the resources it needs to support student achievement and cultivate a high-performing workforce. These include:

- **Teacher and school director compensation (~$285 million over five years):** The 2018 and 2019 Fiscal Plans provided salary raises for teachers and directors in FY2019 and FY2020. Unfortunately, PRDE mistakenly excluded transitory teachers and directors from these raises, which generated a lawsuit against the Department. As such, the 2020 Fiscal Plan provided the funding to cover the retroactive raises for these groups. As of March 2021, PRDE had taken the necessary steps to transfer the funds from the custody of OMB to PRDE to cover the FY2019 and FY2020 raises for transitory teachers and directors.

In addition to the above salary increases provided to teachers and directors in FY2019 and FY2020, the 2022 Fiscal Plan includes salary increases where all PRDE employees (educators and staff) would qualify beginning FY23, while remaining consistent with the goal of the CSR as presented in *Section 13.2.2*.

PRDE employees would receive a salary increase in two phases. In the first phase, all employees (~44.6k) would receive a salary increase effective July 1, 2022. The second phase would be subject to completion of specific attendance milestones intended to increase visibility into the time teachers and students are together in the classroom and equip PRDE with data it needs to advance student learning. Educator attendance and student attendance-taking are critical to promoting student achievement. Currently, PRDE experiences significant challenges in student and teacher attendance and lacks timely data that would enable it to address these challenges.

- **Educator attendance:** Education research shows teacher absences can adversely impact student achievement.[267] For example, a teacher missing 10 days a year has been shown to lower students' math achievement equivalent to that of students being taught by a beginner teacher vs. a teacher with 3-5 years of experience. Nationally, teachers are present on average 95% of school days and the U.S. Department of Education defines chronic teacher absenteeism as 10 or more absences per school year. PRDE is in the process of gathering a complete picture of teacher attendance year-to-date. Last school year (2020-21), best available data shows the average teacher attendance rate at ~65% (62 days missed).[268]

- **Student attendance-taking:** Daily student attendance tracking could allow for early and regular interventions to improve learning outcomes for chronically absent students. For example, in one study, an automatic absence notification to students' families reduced course failures by 38%. Data from Fall 2021 indicates that only about one-fifth of teachers had entered attendance data for 95% or more of their class periods in PRDE's Student Information System (SIS) on the same day that classes occurred.[269]

For teachers, the total of both phases would reflect a 20% increase over the current average salary and a 27% increase over the current starting salary for a teacher with a bachelor's degree and for directors, facilitators, and direct supervisors the total of both phases would reflect a 15% salary increase (see below for more details on amounts and timing of increases).

EXHIBIT 95: SALARY INCREASE EXPENDITURES BY PHASE AND EMPLOYEE GROUP

	Headcount Oct-21	Phase 1	Phase 2	Total
Teachers, on average, 20% salary increase	26.8k	$75.5m	$75.5m	$151.1m
Teachers	26.8k	$75.5m	$75.5m	$151.1m
Directors, facilitators, & director supervisors, 15% salary increase	1.1k	$4.5m	$2.3m	$6.8m
Directors	0.9k	$3.8m	$1.9m	$5.7m
Facilitators	0.1k	$0.6m	$0.3m	$0.9m
Director supervisors (*gerente escolares*)	0.04k	$0.2m	$0.1m	$0.2m
Direct student support employees, 10% salary increase	8.8k	$14.1m	-	$14.1m
Special education assistants (T1s and T2s) and therapists	5.6k	$5.0m	-	$5.0m
Nurses	0.9k	$2.6m	-	$2.6m
Psychologists	0.7k	$3.1m	-	$3.1m
Other school support (librarian, teacher support, social worker)	0.3k	$0.5m	-	$0.5m
Regional superintendent	0.01k	$0.1m	-	$0.1m
School administration	1.3k	$2.8m	-	$2.8m
Administrative support employees, 5% salary increase	8.0k	$7.7m	-	$7.7m
Other school personnel (security, maintenance, food services)	6.0k	$5.4m	-	$5.4m
Central office personnel (office of fed. affairs, HR, academic affairs, special education, OMEP, secretaries, auxiliaries, etc.)	0.7k	$1.0m	-	$1.0m
Regional office personnel (HR, OMEP, food services, auxiliaries)	0.5k	$0.6m	-	$0.6m
Regional school support personnel (food services, special education administration, OMEP, etc.)	0.8k	$0.7m	-	$0.7m
Salary subtotal	44.7k	$101.9m	$77.8m	$179.7m
Benefits subtotal	...	$4.9m	$2.7m	$7.6m
Total investment[1]	...	$106.8m	$80.5m	$187.3m

1 Analysis does not consider non-teachers with active teacher certification, as data was not provided by PRDE. Benefits for non-teachers include Medicare (1.45%), Social Security (6.2%), and FSE (1.8%). Benefits for teachers include the prior except Social Security. Analysis excludes all PRDE finance and accounting personnel given Civil Service Reform. Analysis (headcount and average salary) based on Oct-21 data; exact figures may vary over course of year depending on staffing levels.

[267] Source: "Chronic Absenteeism and Its Impact on Achievement", Center for Research in Education and Social Policy (CRESP) 2018.

[268] Data is for the 2020-2021 obtained from the Kronos system. These figures do not consider out-of-policy manual teacher attendance registration.

[269] Gobierno de Puerto Rico Departamento de Educación, "Informe de la toma de asistencia," 2021

The design of the plan for PRDE salary increases considers three guiding principles:

- **Participation:** All PRDE employees should have the chance to participate.
- **Equity and flexibility:** Salary increases should help address inequities in compensation within employee categories to the extent possible.
- **Strengthening the PRDE system:** Increases should include milestones and promote actions that support student achievement.

The two phases of implementation are summarized in *Exhibit 96*.

EXHIBIT 96: OVERVIEW OF PHASED APPROACH FOR PRDE SALARY INCREASES

	Phase 1 Baseline salary increase	Phase 2 Attendance milestones
Context	▪ An initial phase would include a **baseline increase for all employees**	▪ Phase 2 salary increases will apply to **PRDE teachers, directors, facilitators, and director supervisors and will depend on the completion of attendance milestones** intended to develop areas of impact for PRDE
	▪ PRDE employees are paid far below mainland averages, which contributes to the talent shortage on the Island	▪ PRDE experiences challenges in student and teacher attendance and lacks timely data to respond
Purpose	▪ Provide all employees the opportunity to participate ▪ Bring salaries closer to competitive levels	▪ Improve visibility into the time educators and students spend together
Eligibility	▪ All PRDE employees	▪ Full-time regular and transitory teachers ▪ Directors, director supervisors, facilitators
Effective date	▪ July 2022	▪ January 2023

A gradual and collaborative approach, with phases and milestones, can guide PRDE as it introduces salary increases, while retaining transparency and accountability. The details of the salary increase, by PRDE employee group, are as follows:

- **Teachers**
  - **Base salary increases:** Teachers will receive an increase of $470 per month in their base salary over the two phases of implementation, pending successful completion of milestones. This reflects a 20% increase over the current average teacher salary of ~$2,340 per month. Depending on the actual salary of each teacher, the $470 per month could represent as much as a 34% raise. Furthermore, these raises also result in increased retirement savings in the form of additional Government and employee contributions to Social Security (for those participating) and through additional employee contributions to the Act 106 retirement accounts. In addition, the base salary rates for new teachers will also increase by $470 per month, a 27% increase over the current starting salary for a new teacher with a bachelor's degree.
  - **Phase 2 teacher milestones**

- **Phase 1:** All teachers (full-time regular and transitory, all subjects) will receive a \$235 per month increase on July 1, 2022. On average, this represents a 10% increase in salary.

- **Phase 2**: Teachers could receive an additional \$235 per month during Phase 2, effective January 1, 2023, based on successful completion of two milestones. Milestones would target improved teacher attendance and student attendance-taking during an established qualification period (e.g., 9/5/22 through 12/16/22). Successful completion would be defined as follows:

  - Be present for ≥90% of workdays as registered in the automated T&A system. Teachers must use a biometric clock or timestamp (when remote) to register presence at work. The DE-14 manual forms will only be used for specific circumstances related to justified absences (i.e., vacation and sickness). Prior to January 2022, teachers were able to register presence manually/late using the "regular" code from DE-14. PRDE eliminated this code effective January 2022 as it did not provide transparency on time reporting and was being used excessively. PRDE should continue to promote and enforce automated time and attendance while closely monitoring the use of the DE-14 forms.

  - Submit student attendance via student information system ≥90% of school days.

  - Each teacher would get the same dollar amount increase which would, on a percentage basis, particularly help teachers at lower salary levels. Under the Phase 2 milestone, all teachers will receive the salary increase if the milestone is met, and no teachers will receive the salary increase if the milestone is not met.

- **Directors, Facilitators, and Director Supervisor**

  - Employees in these positions would receive salary increases in two phases as follows:

    - **Phase 1**: all employees in this category will receive a 10% increase over FY2022 salary on July 1, 2022.

    - **Phase 2**: all employees in this category will receive an additional 5% increase over FY2022 salary effective January 1, 2023, pending successful completion of milestones. Successful completion would be defined as follows:

      - Be present for ≥90% of workdays as registered in the automated T&A system. As with teachers, employees in this category must use a biometric clock or timestamp (when remote) to register presence at work. The DE-14 manual forms will only be used for specific circumstances related to justified absences (i.e., vacation and sickness.

    - If milestones are not met, employees in these positions would only receive the Phase 1 10% salary increase.

- **Direct student support employees**

  - All employees in this category will receive a 10% increase over FY2022 salary on July 1, 2022.

- **Administrative support employees**

  - All employees in this category will receive a 5% increase over FY2022 salary on July 1, 2022.

The increase in the baseline salary will be applicable to the current base salary scales of all classifications of PRDE employees established at the beginning of their employment with the PRDE. Once the increase is applied, it will be applicable to every person who is recruited by the PRDE as a regular or transitory employee after June 30, 2022. The Oversight Board believes ongoing collective bargaining agreement (CBA) discussions should reflect CSR priorities of improved evaluation, compensation and recruiting structure and is prepared to participate in

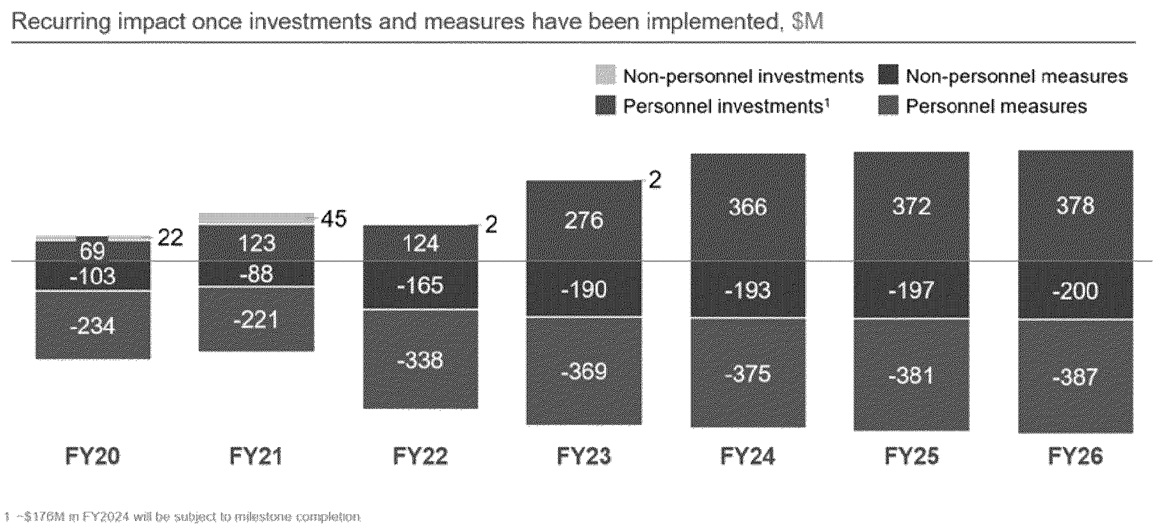
those talks. Moreover, these salary adjustments must be reflected on PRDE's internal regulations and salary scales effective July 1st, 2022. Additionally, the Oversight Board encourages further CSR to address evaluation and compensation for public employees.

Special Education and Remedio Provisional program specific FY2022 budget accounting: In addition to the funding above, the 2022 Fiscal Plan continues to ensure that PRDE is compliant with legal requirements for the Special Education and Remedio Provisional program. In order to ensure proper resources are allocated to all special education students, the FY2022 Budget for the Special Education Program and the Remedio Provisional Program will be separately presented from PRDE's overall budget. By presenting the budgets separately, the Oversight Board can ensure resources are properly allocated based on Special Education student enrollment and needs, while also ensuring greater transparency in program spending.

Overview of efficiency measures

The COVID-19 pandemic caused significant prolonged disruptions to the education system and PRDE was mainly able to focus on providing virtual education, which impacted the advancement of initiatives to proactively capture savings. To help the Government manage the COVID-19 pandemic and to progress implementation across key reforms, the Oversight Board allowed a one-year deferral on agency efficiency measures for FY2021. However, starting in FY2022, PRDE is once again required to generate personnel and non-personnel savings outlined in *Exhibit 97*. After having analyzed the guidance released by the U.S. Department of Education on how to calculate the Maintenance of Effort (MOE) requirements associated with the COVID-19 funding, as well as its implications on the UPR and PRDE funding provided for FY2022, the Commonwealth formally requested a full waiver of the MOE requirements on September 1, 2021.

EXHIBIT 97: DEPARTMENT OF EDUCATION INVESTMENTS AND MEASURES SUMMARY OF IMPACT



14.3.1 Improving student-teacher ratio

One key indicator of school efficiency is the student-to-teacher ratio (ST ratio) used across the school system. Given the need for PRDE to rightsize its resources in alignment with a steadily declining student enrollment, it should aim to manage its ST ratio to ensure improvements in efficiency. The Oversight Board recognizes that these are challenging times for the Department and that it may need to staff additional resources to address the tremendous student learning loss due to the pandemic. For this, PRDE must take advantage of the recent influx of non-recurring, non-General Fund dollars (e.g., stimulus, federal funds) to support these critical student needs through temporary staff that may not need to be incorporated as permanent positions. As

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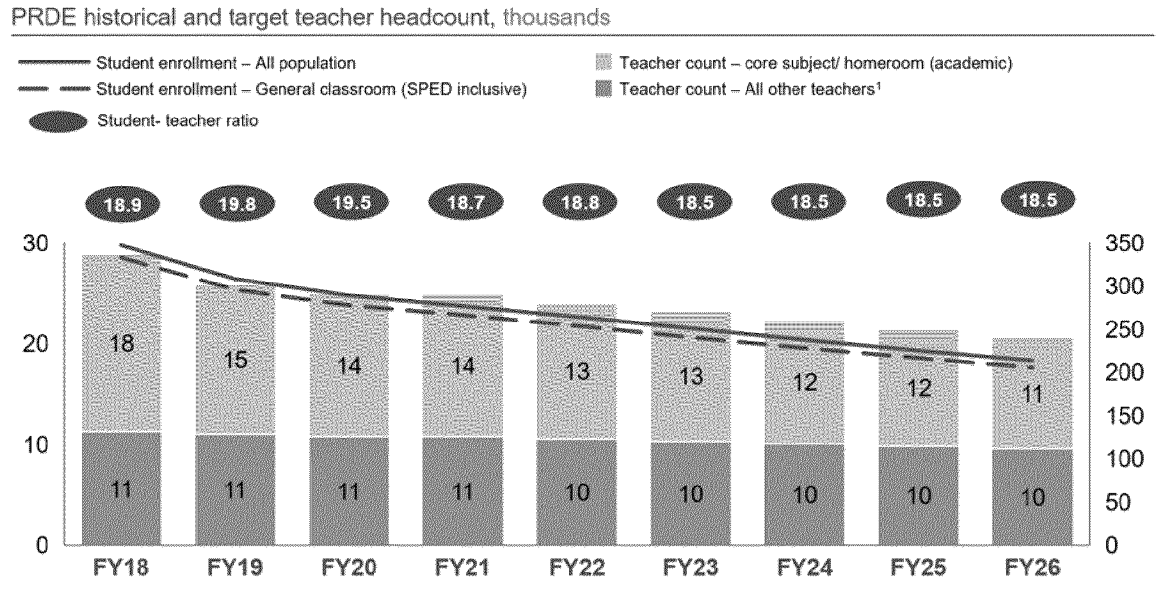
described in *Section 8.3*, PRDE should protect against the possibility of this new headcount creating a budget overspend by developing a long-term financial plan that efficiently leverages all funding sources available.

The ST ratio calculation is based on data from the Department and includes both general education students as well as Special Education students who spend most of the school day in inclusive classrooms with their general education peers (known as "salón recurso"). The teachers counted in the ST ratio are those that teach core subjects and/or homeroom classrooms.[270] The staffing of all other teachers (previously referred to as 'non-academic' teachers) are expected to be rightsized through attrition.[271]

EXHIBIT 98: TEACHER HEADCOUNT AND STUDENT ENROLLMENT



1 Excludes librarians, program coordinators, counselors, or social workers

PRDE will need to monitor its teacher staffing formulas and more systematically apply its own guidelines, referred to as Organización Escolar, to assign teachers based on classroom size. Although PRDE initially assigns teachers based on these guidelines, it also allows for various exceptions which are not adequately documented. For example, PRDE may choose to retain an extra teacher in a school with declining enrollment if the teacher is not able to fill a vacant position at the current school or move to another school due to extenuating circumstances (e.g., onerous travel distance per Collective Bargaining Agreement (CBA)).

Due to the impact of the COVID-19 pandemic and remote learning, for the 2020-2021 school year, PRDE did not hire the number of teachers it would typically hire in an in-person school year. This has resulted in a ST ratio of ~18.9 as of December 2020 (13.9 thousand core teachers and 263.1 thousand students served in general education classrooms) which is slightly better than the 2022 Fiscal Plan target of 18.7. However, as PRDE resumes in-person learning, and hires additional teachers to support it, the ST ratio is expected to decrease below the 2022 Fiscal Plan target.

270 Core subjects / homeroom teachers include those that teach General Education, English, Math, Science, Spanish, History, and homeroom
271 All other teachers include, for example, Career and Technology, PE, Arts, and Special Education teachers

EXHIBIT 99: PRDE *ORGANIZACIÓN ESCOLAR* STAFFING POLICIES

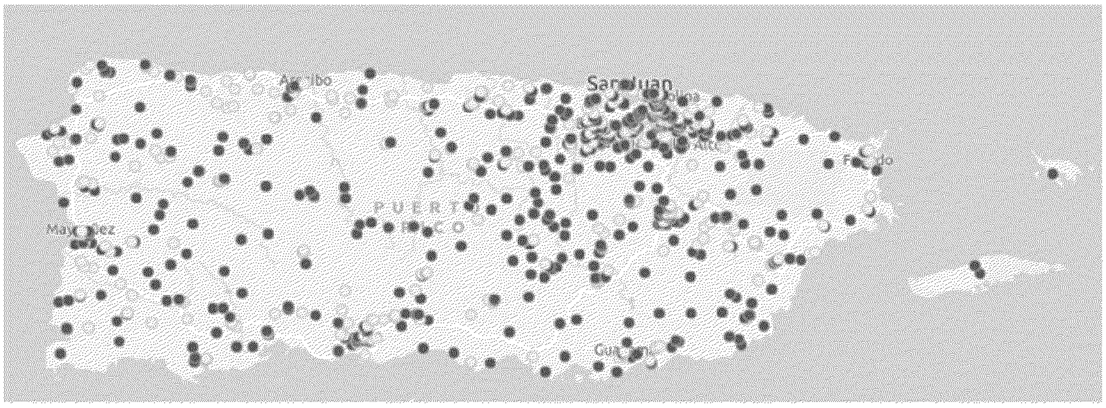
	Formal policy	Implied guidelines	No implied guidelines
General Education	▪ Class size maximums (PK: 16, K-3: 25, 4-12: 30)	▪ Grades 6-12: 5 classrooms per pod of 5 teachers – consisting of math, science, history, Spanish, and English teachers	▪ General Education assistants (n=~80)
Specialty		▪ English (K-5): 5 classes taught per day ▪ PE: 1 every 250 students ▪ Arts, Health, Career & Technology: 1 per subject per 6-8 and 9-12 grade	
Special Education	▪ Class size maximums – Regular, reduced enrollment: 16 – Full-time classroom (promotion): 12; – Full-time classroom (modified): 10 ▪ Resource teachers: 25 pull-outs per day ▪ Therapists: based on individual IEP	▪ Note: Special Education class size maximums in practice are lower than stated formal policy	▪ Special Education assistants (n=5.8k) Note: Driven in large part by IEPs, but exceptions are made based on need with no firm ratios
Source / Policy	▪ Organización Escolar (General Education + Special Education) ▪ Convenio Colectivo	▪ Escuela Basica ▪ HR Director guidance	▪ Decisions are made flexibly

Notes: Special Education issued their first school organization policy in FY18-19; *PRDE communicated 1 nurse per school is required by Law 85, though the language is not apparent
SOURCE: Carta Circular num. 05-2019-2020, PRDE política pública sobre la organización escolar para el programa de educación especial y los requisitos de promoción y graduación para los estudiantes con discapacidades matriculados en las escuelas del departamento de educación de puerto rico, May 2019

By following its own staffing guidelines, PRDE would be pursuing a more efficient staffing structure; however, PRDE could ultimately fall short of 2022 Fiscal Plan targets over time given that many schools operate at inefficient enrollment levels and thus incur in significant "breakage" (i.e., underutilized teachers). For example, if a school has 36 students in third grade, that school will need two third grade teachers with classrooms of 18 students each, even though those teachers could theoretically teach an additional 7 students each, (i.e., up to 25 students per class), per *the Organización Escolar* guidelines. This type of situation is pervasive across the Island: in FY2020 only 40% of PRDE's schools operated at roughly efficient school size (see *Exhibit 100*). These schools are geographically dispersed across the Island with inefficiencies existing in all regions and urban/suburban/rural areas. The issue can be best addressed with active footprint management, taking into consideration geographic and student demographic constraints.

EXHIBIT 100: MAP OF PRDE SCHOOLS BY ABILITY TO ACHIEVE EFFICIENT STAFFING

PRDE schools by location and efficiency



●	Inefficient school: based on current enrollment structure or size, applying *organización escolar* results in a teacher need that equates to a below average ratio	485 schools
○	Efficient school: based on current enrollment structure or size, applying *organización escolar* results in a teacher need that equates to an above average ratio	353 schools

As enrollment is projected to decline by 4-5% each year through FY2026 (due to overall Island population decline), this issue of breakage will worsen, with schools increasingly less able to maintain efficient staffing levels. While the 2022 Fiscal Plan does not require additional school closures (which would reduce breakage in the system), it is nonetheless important to acknowledge the personnel (and operating) costs of managing a school system where capacity exceeds enrollment. PRDE has the opportunity to assess its existing school footprint and long-term plan through the Facilities Master Plan which will need to be prepared to assess the ~$2.3 billion of disaster relief funding designated by FEMA to support reconstruction of damages caused by Hurricane Maria.

EXHIBIT 101: REQUIRED IMPLEMENTATION ACTIONS FOR IMPROVING STUDENT-TEACHER RATIO

	Required implementation actions	Deadline
To be completed in FY2022	▪ Review current staffing levels against PRDE staffing guidelines (Organización Escolar) across all schools and identify schools with incorrect mix of teaching staff	▪ Delayed – December 2020
	▪ Outline a plan to streamline the process for school staffing in a transparent data-based manner that will allow PRDE to continue to manage the student-teacher ratio in a systematic way	▪ Delayed – May 2021
	▪ Define an implementation plan to align teacher count to current Organización Escolar guidelines and meet Fiscal Plan targets for FY2022-FY2025	▪ Delayed – May 2021
	▪ Implement a streamlined process to systematically apply staffing guidelines and document allowable exceptions to teacher assignments to ensure that going forward PRDE is able to maintain an appropriate allocation of teaching staff in all schools	▪ Delayed – December 2021

14.3.2 Capturing savings from past school consolidations

The Government of Puerto Rico recognized that declining student enrollment requires active management of school facilities to enable the system to invest in a smaller number of higher-performing schools. Therefore, in 2018, the Government proposed to consolidate schools to improve overall efficiency within the system. After an analysis of several factors including

capacity, geographic and cultural characteristics, distance to neighboring schools, transportation costs, and facility quality, the joint Government / Oversight Board proposal within the October 2018 Fiscal Plan included a measure for PRDE to close 307 schools by FY2020 which was projected to result in ~$111 million of run-rate savings by FY2023. By FY2020, PRDE had consolidated 255 schools, and the Oversight Board determined that no further closures were required at the time. However, PRDE committed to capture the full savings estimate (representing ~$15-20 million per year[272]) elsewhere. Unfortunately, to date, school consolidations have not led to proportional personnel and non-personnel costs savings because the consolidations have not been accompanied by concurrent reductions in administrative staff or operational savings.

On the personnel side, this initiative requires the number of school administrators (school directors, office staff, etc.), food service staff, facility maintenance staff, and other school-specific staff to be scaled down to account for a smaller number of schools than achieved to date through consolidation efforts.

EXHIBIT 102: RUN RATE SAVINGS TARGET AND ACTUAL RUN RATE SAVINGS ACHIEVED, BY PERSONNEL CATEGORY (FY2022)

School personnel category	Run rate savings target, $M	Actual run rate savings, $M
Administration[1]	32.0	(9.4)
Maintenance	31.0	10.7
Food Services	20.3	4.0
Total	**83.2**	**5.3**

1 The January 2022 roster contains 493 more administrative personnel than the October 2021 roster. These personnel were hired after September 15, 2021, are concentrated within a single job title "AUXILIAR ADMINISTRATIVO I," and are all based in active PRDE schools.

SOURCE: PRDE Personnel roster January 2022

The 2022 Fiscal Plan requires the Department to maintain its 2018 average of 3.39 food services full-time employees (FTEs) and 2.24 school administrative FTEs per school. As of December 2020, PRDE employed 3,588 food services staff and 2,230 school administrators (implying a ratio of 4.45 and 2.77[273] respectively). This is an excess of 1,274 employees from 2020 Fiscal Plan expectations for FY2021 and equivalent to ~$42.2 million in unrealized run-rate savings in that same fiscal year. As such, in FY2022 PRDE must prioritize rightsizing headcount to meet 2022 Fiscal Plan personnel saving targets.

Recently, PRDE provided internal guidelines for staffing food services and school administrative staff. The full implications of the information received in late FY2021 is still being reviewed and analyzed. However, based on the evidence received, PRDE actual ratios are distant even from their internal guidelines. PRDE must achieve the personnel savings committed to when the 307 school closures were proposed, as required in the 2022 Fiscal Plan.

Furthermore, PRDE must also achieve a 2.27 maintenance FTEs per school ratio. Recently, PRDE provided supporting information for staffing maintenance personnel, which specified PRDE staffs 1 FTE per 13 building units (a unit is defined as 1 classroom, 2 bathrooms, 1 office, or 1 library). However, when asked to provide the building data necessary to assess if current staffing levels align with these guidelines, no further information was made available to the Oversight Board. As of December 2020, PRDE had not met 2020 Fiscal Plan targets for maintenance staff, employing 2,200 employees for a ratio of 2.61. As such, in FY2022 PRDE also must prioritize rightsizing maintenance headcount to meet 2021 Fiscal Plan personnel saving targets.

272 Non-personnel saving per school (~$47,000) was the result of analyzing Government-provided school closure data from previous years and represents the average non-personnel savings across a group of 151 closed schools

273 Based on Agency Efficiency Measure model target of 806 operating schools

EXHIBIT 103: SUMMARY OF CBA / STAFFING GUIDELINES FOR FOOD SERVICES, MAINTENANCE AND SCHOOL ADMINISTRATION

	Formal Policy	Source / Policy
School Administration	▪ No formal CBA ▪ Escuela Básica indicates 1 administrative FTE / school	▪ Escuela Básica ▪ HR Director guidance
Maintenance	▪ 1 maintenance FTE per 13 units[1]	▪ Maintenance staff CBA (2012)
Food Services	▪ 1 food services FTE per every 9-14 meals served per hour[2] ▪ 1 food services supervisor FTE per school	▪ Food services staff CBA (2012)

1 Unit defined as: 1 classroom, 2 bathrooms, 1 office, or 1 library
2 Meals served per hour calculated based on overall meal volume

On the operational side, school consolidations required PRDE to capture non-personnel savings, including reductions in spend on facilities/utilities, professional services, and purchased services, among others.

To date, PRDE has struggled to capture these additional operational savings. The Department has not provided a clear view into how the consolidation of 255 schools has resulted in lower utilities and other operating costs. However, PRDE has been working to avoid unnecessary payments in closed schools by diligently reconciling utility bills from PREPA and PRASA and increasing inter-agency communication. PRDE claims it has been able to recoup a significant amount from identification of excess electricity charges and water charges (although no supporting documentation has been shared), and the Department committed to continue monitoring these bills to avoid overpayment in the future in both closed and active schools.

Despite moderate progress made, many closed school buildings have been left empty or repurposed for administrative uses, inhibiting PRDE's ability to capture full savings from each of the school closures. PRDE has identified 56 school buildings to repurpose for administrative uses, including 41 to be used as inactive archives, regional offices, and for other administrative uses, and 15 to be used by a non-profit alternative education program (Proyecto Centros de Apoyo Sustentable al Alumno (CASA)); however, PRDE has not provided a capacity assessment to justify this decision. As part of its Facilities Master Plan, PRDE must work towards minimizing the spend on retained buildings and therefore achieving the required 2022 Fiscal Plan savings.

Further, notwithstanding that PRDE is not the owner of the schools, the Government (including PRDE, DTOP, PBA, AAFAF and any other relevant Government agency) must make every effort to finalize a plan for sale or lease to ensure the unused buildings are most efficiently utilized in communities and do not create new community challenges due to their abandonment. In FY2022, PRDE is expected to capture all the outlined 2022 Fiscal Plan savings for both personnel and operational savings.

EXHIBIT 104: REQUIRED IMPLEMENTATION ACTION FOR CAPTURING SAVINGS FROM PAST SCHOOL CONSOLIDATIONS

	Required implementation actions	Deadline
To be completed in FY2022	▪ Define an implementation plan to rightsize food services personnel, maintenance, and school administrators according to internal staffing guidelines (e.g., CBA) and Fiscal Plan targets	▪ Delayed – August 2021
	▪ Provide a savings analysis of the 255 schools closed, including rent, utilities, maintenance, security, property materials, telecoms, etc.	▪ Delayed – September 2021
	▪ As part of the Facilities Master Plan, PRDE will work with other Government agencies (e.g., DTOP, AEP, AAFAF) to plan for the sale/lease/other of unused buildings, assess the cost to maintain ~56 closed schools for alternate use and identify a funding source to cover these operational expenses	▪ Delayed – November 2021

14.3.3 Rightsizing regional and central offices

The 2022 Fiscal Plan supports PRDE's own proposed shift from a single central administrative office model to a central/regional administration model. By pursuing a regional model, PRDE had aimed to enable faster, more locally relevant educational services; drive system-wide initiatives and shared services from a central office; and reduce administrative headcount. In this new central/regional model, administration of individual schools would be decentralized and made leaner while also putting decision-making closer to students and families. Developing and relying on regional leadership would also allow PRDE's central administrative structure to rightsize to staffing levels comparable to state educational agencies on the mainland. In keeping with the push toward a central/regional model, Fiscal Plans have required that by FY2020, PRDE achieve approximately a 25% reduction in administrative headcount between regional and central office roles; this target has been maintained in the 2020 and 2021 Fiscal Plans. Additionally, the 2022 Fiscal Plan considers an incremental 3% reduction in FY2022.

As of December 2020, PRDE had ~2.8 thousand staff that held central/regional office roles: 722 in the central office, 607 in the seven regional offices, and the largest portion, ~1.5 thousand, in field-based roles that are directly serving schools or groups of schools but tagged to regions. **A comparison analysis of PRDE's administrative headcount for FY2020 and FY2021, which includes those in central and regional offices not directly serving schools, shows that there has been no progress in rightsizing headcount to meet savings targets.**

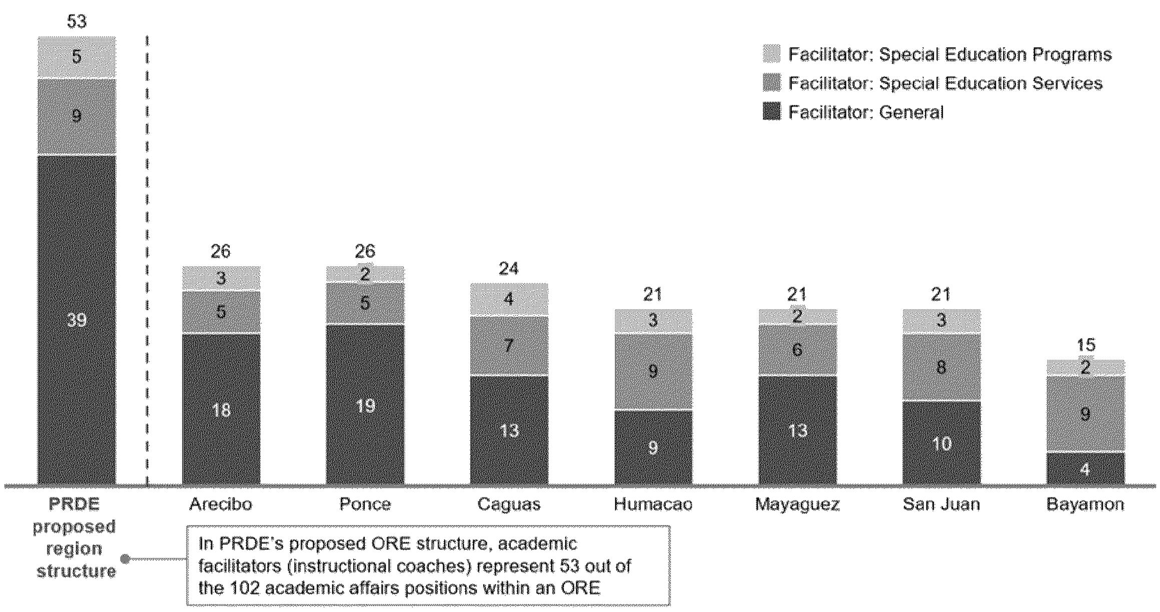
In order to meet 2022 Fiscal Plan targets going forward and maximize the impact of its staff, the Department must first clearly define the roles and responsibilities of functions at the regional and central level to identify capacity gaps and better empower the regions. There is currently redundancy in responsibilities to be resolved at the central and regional levels, which contributes to process inefficiencies and lack of ownership over decisions. Furthermore, these issues lead to unclear definitions of success, prevent high performers from being elevated to leadership positions, and limit opportunities for professional development programs differentiated based on the level and function of the staff member. PRDE must enable its staff to succeed through clearly defined roles, formal accountability structures, and professional supports to build relevant skills as outlined in *Chapter 8*. Addressing these concerns will result in a more efficient system and staff who understand how to maximize their contributions to improve the Department.

Additionally, to achieve the vision of a decentralized model, PRDE must realign existing resources to fill critical vacancies at both the central and regional level. In doing so, PRDE should re-evaluate dispersion of responsibilities across the central leadership team to create an organizational structure that best supports the needs of the Department. Furthermore, PRDE must ensure enough support at the regional levels, where there was a 20% reduction in field-based staff from

FY2020-FY2021. In particular, there has been a stark understaffing of community engagement regional coordinators, with four of seven posts remaining vacant, and of academic support staff, including facilitators who support teacher development.

EXHIBIT 105: ACADEMIC FACILITATOR COUNT VERSUS TARGET

Proposed regional headcount vs. current state for academic facilitators, Dec 2020



SOURCE: PRDE Personnel roster Dec 2020

Moving forward, PRDE must pursue its vision for a better-defined central/regional model by clearly defining the role of the central and regional offices and eliminating duplicative responsibilities between the offices. Subsequently, PRDE must fill key vacancies in all levels of the system, with a particular focus on increasing academic support staff as well as rightsizing administrative headcount in the central and regional offices to ensure resources are more adequately focused on driving student achievement in schools.

EXHIBIT 106: REQUIRED IMPLEMENTATION ACTIONS FOR RIGHTSIZING REGIONAL AND CENTRAL OFFICES

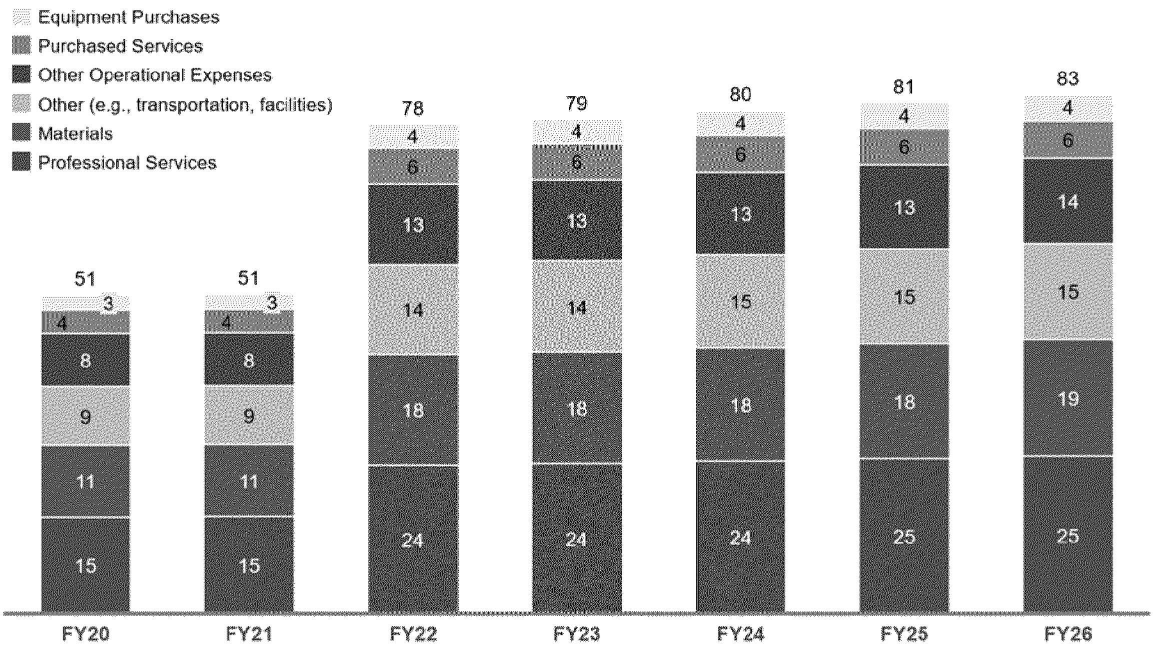
	Required implementation actions	Deadline
To be completed FY2022	• Delineate roles and responsibilities for each function of the Central vs. Regional offices in a manner that allows PRDE to identify duplicative responsibilities and re-prioritize school support in the regions	• Delayed – August 2020
	• Define an implementation plan to invest in Region's school support function by re-allocating staff to increase academic facilitator positions in the regions and reduce administrative headcount in the central and regional administrative offices, aligned to Fiscal Plan targets for FY2022 to FY2025	• Delayed – December 2020
	• Identify critical vacancies at central, regional, and school level and develop a plan to fill with high potential candidates by reducing and reallocating existing resources, particularly administrative positions	• Delayed – August 2021
	• Define implementation plan to achieve 25% reduction in administrative headcount between regional and central offices	• Delayed – December 2021

14.3.4 Reducing procurement spend

PRDE procurement spend must be reduced by 10-15% by FY2023 through centralized procurement policies, including strategic purchasing, and demand controls. As detailed in *Exhibit 107*, PRDE must meet 2022 Fiscal Plan savings targets across all procurement categories, by creating greater spending transparency, consolidating vendor contracts, and prioritizing savings in areas that represent variable costs (which generally decline as enrollment does) and those that have less impact on students and schools.

EXHIBIT 107: SUMMARY OF EXPECTED PROCUREMENT SAVINGS PER 2022 FISCAL PLAN

Procurement savings target by spend concept[1], $M



1 Excludes PayGo

SOURCE: FY19, FY20, FY21 Sabana files

Even if PRDE operated within 2021 Fiscal Plan budget targets for FY2022, PRDE has not made notable progress in implementing structural initiatives to drive sustainable procurement savings, and instead has waited for the procurement centralization within the ***General Services Administration (GSA)*** to realize procurement savings. Starting on FY2022, GSA has taken an increased role in procurement on behalf of PRDE, although PRDE is still accountable for achieving these procurement savings in the interim.

PRDE's ability to make informed strategic management decisions on how to effectively allocate resources to procurement expenses is constrained by a lack of transparency in spending. The 2020 Fiscal Plan highlighted the need to increase transparency of spending data (e.g., providing more visibility into the ~40-50% of non-personnel expenses tagged to categories with unclear descriptions or listed as "unclassified"), in order to allow PRDE to identify areas for efficiencies. During FY2021, PRDE took some initial steps to implement new subcategories in the financial system (Financial Information System of the Department of Education or SIFDE by its Spanish acronym) to better classify spend in the Professional and Purchased Services concept codes, and it should now aim to assess this spend and identify areas for vendor consolidation and/or other procurement efficiencies. Also, as part of the long-term financial plan mentioned in *Section 14.3*, PRDE must assess and rationalize spending across funding sources to ensure it is efficiently leveraging all funding sources available.

Lastly, as mentioned in *Section 14.3*, PRDE must comply with Act 73-2019, as amended, which requires the agency to prepare an Annual Procurement Plan based on the agency's annual estimate of probable needs and purchases. Although Act 73-2019 does not require agencies to prepare a plan for annual professional services, PRDE must prepare a similar plan that details all professional services to be contracted during the fiscal year to obtain similar benefits, including an understanding of the purchases to be made during the year, identifying potential savings, ensuring compliance with budget targets, and flagging opportunities to improve current processes and procedures.

Facilities costs

Currently, there is still very little transparency into what PRDE spends on facilities. PRDE continues to capture facilities related spend in several cost concepts, making it difficult to disaggregate between type of spend, including custodial, maintenance, capital expenditures, etc. The Oficina para el Mejoramiento de Escuelas Públicas (OMEP), which represented ~60% of facilities spending in FY2019, implemented minor changes in its system during this past fiscal year to increase alignment with SIFDE and better capture facilities spend. However, OMEP has yet to implement an expense reconciliation process with SIFDE, which limits the visibility into total facilities costs. Driving to a greater level of transparency in how OMEP spends its budget across the various facilities cost concepts will help PRDE make sure dollars are being allocated with the appropriate level of prioritization. As such, in FY2022 PRDE must implement updates to capture all facilities spend at PRDE (e.g., spend from OMEP) in a more streamlined manner and to be able to differentiate spend between maintenance, capital expenditures and custodians.

The 2020 Fiscal Plan discussed how PRDE must commission the development of a Facilities Master Plan to assess its portfolio of buildings alongside their purpose and plan for the future. During FY2021, PRDE contracted a vendor to complete a Facilities Master Plan as part of the requirements of the FEMA Accelerated Award Strategy (FAASt) funding obligation. An initial master plan is expected to be completed mid-2022 with the full plan finalized in late 2022. This plan would account for changing needs and demographics of schools on the Island by prioritizing investments in school buildings that have a long-term place in the school footprint and are equipped with 21^{st} century features and resources as well as disaster-resilient infrastructure. The plan must also identify alternative uses of its facilities that may be phased out over time. As such, in FY2022 PRDE must comply with the FEMA requirement to create a facilities master plan that assesses the need of PRDE facilities portfolio and share all versions of such plan with the Oversight Board.

Transportation costs

Federal Individuals with Disabilities Education Act (IDEA) dollars and School-wide funds have been used by PRDE in the past to fund student transportation; however, USDE-imposed restrictions on PRDE currently prohibit the use of federal funds for transportation. This is due to the fact that PRDE has had a series of reports on non-compliance with the provisions of the Code of Federal Regulations and the IDEA Law related to improper payments, lack of internal controls, non-compliance with its own policies, and lack of adequate monitoring in relation to the issuance of payments for transportation services to students of the Special Education Program. Thus, at the moment, PRDE must completely fund both General and Special Education student transportation through the General Fund until compliance with USDE-imposed special conditions and other USDE requirements are met. Ultimately, this puts increased pressure on State dollars for student transportation instead of being able to leverage a portion of federal dollars.

During FY2021, PRDE made progress in implementing the transportation system updates that would address USDE findings, but it has yet to present these updates to USDE to assess completion of the actions. PRDE must prioritize this work in FY2023 to achieve greater flexibility in funding sources for student transportation.

EXHIBIT 108: REQUIRED IMPLEMENTATION ACTIONS FOR REDUCING PROCUREMENT SPEND

	Required implementation actions	Deadline
To be completed in FY2022	▪ Define a plan to increase expense categorization and reporting transparency, which could include adding descriptors in PRDE's internal financial systems (e.g., SIFDE)	▪ Completed
	▪ Implement updates to the transportation system and resolve all pending items identified to comply with USDE requirements and thus be able to leverage Federal Funds to cover part of student transportation costs	▪ Completed
	▪ Evaluate current transportation spend and services in order to ensure that all students that are eligible (per IEP or regular eligibility guidelines) receive transportation services	▪ Delayed – December 2020
	▪ Evaluate facilities spend and create an implementation plan to capture all facilities spend at PRDE (e.g., spend from OMEP) in a more streamlined manner and to be able to differentiate spend between maintenance, capital expenditures and custodians	▪ June 2022
	▪ Create a facilities master plan that assesses the need of PRDE facilities portfolio in order to ensure that spend is prioritized according to need and PRDE's long-term facilitates strategy (PRDE must share all versions of such plan with the Oversight Board)	▪ June 2022
	▪ Evaluate improved spending transparency given new subclassifications within SIFDE and identify savings achieved as well as potential opportunities to meet Fiscal Plan savings target	▪ June 2022
	▪ Prepare and submit the Annual Procurement Plan to GSA, as required by Law 73-2019, and prepare a similar plan for professional services to be contracted during the next fiscal year	▪ June 2022

14.3.5 Optimizing Special Education professional services costs

PRDE serves Special Education students through two programs. The primary program is the Special Education Program, known as Secretaría Asociada de Educación Especial (SAEE), which provides educational and therapeutic services to students, with the second program being *Remedio Provisional,* which only provides non-education support services to students. *Remedio Provisional* was created as a result of the Rosa Lydia Vélez case to offer therapeutic services to Special Education students whose only impediment to receiving services is that the Department of Education does not have the resources to offer them. Typically, if PRDE does not provide necessary services within 30 days from the request of services from SAEE and drafting of the Individualized Education Program (IEP), the family of the special education student has the ability to receive services through this alternate channel. While it is good practice for districts to have a formal mechanism for complaints and ensuring students receive adequate services, PRDE's way of addressing this situation is not typical. PRDE uses *Remedio Provisional* as a more permanent solution for students to receive services. Services that were not budgeted for appropriately at the beginning of the year within SAEE are provided through Remedio Provisional; only to then transfer students to receive services via SAEE the following year. Given this practice, PRDE ends up spending much more on student support costs than is necessary to deliver the same quality of service.

PRDE's ability to provide Special Education services through the pandemic has been impacted with social distancing requirements altering service delivery and creating significant delays in the IEP revision process. Despite these challenges, PRDE has been able to make progress towards improving quality and transparency of Special Education data, primarily through updates to the Mi Portal Especial (MiPE) system (e.g., adding Human Resources modules to create better visibility into allocation of Special Education assistants and integrations between Sistema de Información Estudiantil (SIE) and MiPE systems to better monitor Special Education students' academic progress).

To date, PRDE has been unable to realize reductions in professional services costs associated with the Remedio Provisional program, which are 4-5 times more expensive than services provided through the regular Special Education program. As of March 2021, PRDE was working on completing the required market study on Remedio Provisional pricing and is expected to evaluate the results and incorporate revised rates in FY2022. As such, in FY2022 PRDE must implement these revised rates, as well as analyze and capture savings achieved.

Furthermore, PRDE has made slow progress on the implementation of a process to transition students from *Remedio Provisional* to the regular Special Education program. During FY2021, a committee was formed to identify students that could be transitioned into the Special Education program; however, the committee was ineffective at creating additional capacity needed to serve many of these students within the Special Education program, in part because of the challenges of the on-going pandemic.

For FY2022, PRDE proposed that it could transition students receiving psychological or individual speech therapy through contracted vendors to the Special Education program as there are existing internal resources with capacity to provide these services (e.g., school psychologists). As such, in FY2022 PRDE must define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition students from *Remedio Provisional.*

EXHIBIT 109: REQUIRED IMPLEMENTATION ACTIONS FOR SPECIAL EDUCATION

	Required implementation actions	Deadline
To be completed in FY2022	• Create a small Central Office team (max of 8) to implement the digitization of Special Education IEP records with supporting documentation, assigned resources and related service requirements, and provide a 12-month implementation plan to the Oversight Board.[1]	• Completed
	• Revisit Remedio Provisional's services pricing to ensure these are aligned to market rates as per Law 85-2018	• Completed
	• Implement revised Remedio Provisional rates and analyze savings achieved by submitting a report to the Oversight Board	• Delayed – December 2021
	• Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional	• Delayed – October 2021
	• Implement recommendations of PRDE's transition committee to enable students to receive services through PRDE's Special Education Program instead of Remedio Provisional	• Delayed – October 2021
	• Establish transition process for students from Remedio Provisional back to PRDE Special Education program, which will allow PRDE to serve these students more efficiently	• Delayed – December 2020

1 At a minimum, the plan must include (1) amount of IEPs to be digitalized, (2) amount of time employees will take to carry out the project, (3) accountability measures/checks to validate accuracy of data inputted, (4) monthly milestones, (5) team members with name, employee ID, contact information, and job title, and (6) project supervisor with name, employee ID, contact information, and job title.

14.3.6 Improving financial processes

As mentioned in *Chapter 9*, to support the effort of developing a long-term financial plan, PRDE must identify and hire a well-qualified chief financial officer (CFO) to lead the process of establishing a long-term financial plan that aligns to the strategic plan of the Department, incorporates all funding sources, and prepares the Department to address the short and long-term education reforms previously outlined in *Chapter 9* and *Section 14.3*. While aligning financial resources to student needs should always be a core ambition of an education system, the drastic challenges that have arisen over the last year, and the complexity of the Department's financial situation, further underscore the importance of this long-term financial planning exercise. To this end, the Oversight Board approved PRDE's extension request of the long-term financial plan to be completed by January 2022.

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A key component of good financial management at PRDE is understanding, accessing, and fully leveraging all available funding resources. Historically, the Department has not used all its federal funds prior to the end of the corresponding grant periods, which has been exacerbated by the delay in signing the Third-Party Fiduciary Agent (TPFA) contract, as mentioned in *Section 14.3*. Furthermore, the Department has at times been unable to use federal funds for typically allowable purposes due to operational mismanagement, as in the case of funding for student transportation. The current educational situation in Puerto Rico is too dire not to figure out how to unlock all available funds, too urgent not to rethink how these funds are aligned to the Department's strategic priorities, and too complex to address in a single budget cycle.

EXHIBIT 110: REQUIRED IMPLEMENTATION ACTIONS FOR THE DEVELOPMENT OF A LONG-TERM FINANCIAL PLAN

	Required implementation actions	Deadline
To be completed in FY2022	▪ Develop and execute a plan to release inaccessible funds, including the ability to leverage Federal Funds to student transportation	▪ Completed
	▪ Identify all available funding (recurring and non-recurring), including any spending restrictions, expiration dates, or inaccessible funds	▪ January 2022
	▪ Prepare and share with the Oversight Board a long-term financial plan that models revenue and cost projections by funding source, aligns to the Department's strategies, deploys stimulus funds, and achieves the savings measures specified in this chapter	▪ January 2022
	▪ Hire a well-qualified Chief Financial Officer (CFO) who will work with PRDE leadership to develop a long-term financial plan, in addition to other budgeting and planning responsibilities	▪ March 2022
	▪ Communicate strategic priorities to regions and school directors to support alignment of financial resources in school budgets and institutionalize recurrent meetings to measure progress	▪ March 2022

Lastly, in order to implement the 2022 Fiscal Plan and meet overall objectives related to improving support for students, staff, and parents, PRDE must address a series of challenges throughout the Department, particularly related to fiscal procedures and operational practices. In some cases, fiscal procedures and internal controls are well documented, but the Department does not adhere to them. In other instances, the Department faces issues when it does not have proper policies or documentation to map processes, guarantee internal controls, establish segregation of duties, and designate responsibilities.

For example, based on analysis conducted by the Oversight Board, there is a lack of adherence to the Department of Treasury (Hacienda) policies, particularly as it relates to the submission of weekly and monthly interfaces that contain accounting information and spending transaction details. Based on Hacienda's Carta Circular 1300-04-09, Hacienda requires all Government agencies to submit weekly interfaces by the following Friday, as well as a monthly closing interface due 5 business days after the end of the month. However, PRDE does not submit weekly interfaces, and, while PRDE does submit monthly closings interface, the agency does not meet the established timeline. PRDE claims this is due to the significant number of transaction amendments that must be performed to clean the data to avoid errors in transactions (e.g., incorrect account numbers), particularly as it relates to payroll transactions. In addition, Hacienda's Carta Circular 1300-04-09 requires all Government agencies to include encumbrances and expenses in the interfaces, however, PRDE only includes expenses and fails to share encumbrances until the end of the fiscal year. This non-compliance with the policies and procedures established by Hacienda complicates PRDE's and the Government's ability to actively monitor and manage available resources within the agency, while also limiting spending transparency. As such, in FY2022 PRDE must define and implement a plan to address financial process concerns related to weekly/monthly soft-closings and year-end closing.

Other examples that highlight PRDE's inability to make informed decisions on a timely basis, meet Government-wide policies and increase transparency include:

- **Heavy reliance on consultants for everyday functions.** PRDE heavily relies on consultants throughout the Department (e.g., data analysis and management, federal funds administration, human resources systems) which then results in a lack of trained personnel within the agency. Although the Oversight Board recognizes PRDE, and any entity for that matter, may require external help in implementing effective technology systems or implementing leading instructional practices, PRDE must use consultants as bridge capacity to build internal capabilities and not as permanent resources. PRDE must ensure its internal resources are trained and capable of performing the work consultants do after a reasonable amount of time. In addition, starting July 2021, PRDE should have included a reference to transfer knowledge and train agency employees on all professional service contracts to lower dependency on third-party vendors and consultants over time.

- **Bureaucratic procurement processes.** The time for procuring services can take over 6 months, while at the same time PRDE has ineffective manual processes and paper trails, poor segregation of duties between responsible personnel, and lack of internal controls (e.g., lack of oversight, no adequate training for employees, no proper documentation of required approvals). These issues are also highlighted in the Federal Government's Audit Reports (2019 Puerto Rico Department of Education's Internal Controls over the Immediate Aid to Restart Schools Operations Program; 2013 Review of Final Expenditures Under ARRA). As such, in FY2022 PRDE must define and implement a plan to address all findings identified in state and federal audits, digitize the procuring process, establish clear segregation of duties, and enforce comprehensive internal controls.

- **Lag from the time an encumbrance is recorded, to the time PRDE receives the invoice from the vendor, to the time the invoice is paid.** PRDE's Finance Office monitors the high dollar amount of encumbrances and the low dollar amount of disbursements, however, there is no internal policy or requirement to ensure PRDE programs and offices follow up with the vendors to receive and pay the invoices on time. At the end of the year, encumbrances are not paid on time, fiscal year State dollars are left unused, and these unpaid invoices accumulate as debt. As such, in FY2022 PRDE must define and implement an internal process to address lags between the time an encumbrance is recorded, to the time PRDE receives the invoice from the vendor, to the time the invoice is paid, as to avoid incurring unnecessary debt.

- **Inability to liquidate funds on allowable costs before the established deadline.** For example, in FY2019 and FY2020, there was significant General Fund underspend ($49 million and $60 million, respectively). However, the Oversight Board recognizes there are areas and projects within PRDE that have not been properly funded due to mismanagement of funds which highlight the disconnect between resources available and financial planning. Similarly, PRDE has to constantly request extensions and waivers from the Federal Government in order to liquidate federal grants. As such, in FY2022 PRDE must institute a weekly/monthly budget-to-actual analysis to monitor progress on defined workplans among the different PRDE programs.

- **Discrepancies in account codes** used by PRDE, which are not aligned to Hacienda's approved account codes. These discrepancies must be constantly reconciled by both Agencies, further complicating and extending the closing and reconciliation processes. As such, in FY2022 PRDE must identify discrepancies in accounts codes and implement the codes established by Hacienda.

Improvement of these financial processes will not only enable the implementation of key 2022 Fiscal Plan reforms and initiatives but will also allow PRDE to better manage costs and use dollars more effectively for students. The Department must take clear and tactical actions to improve their financial processes as these have a direct impact to the service delivered to students and the

financial transparency, controls, and efficiencies that are required to manage their expenditures. PRDE must actively and constantly review and improve all financial and operational process, not just the ones listed above, which are inefficient and prevent the agency from meeting its goals.

EXHIBIT 111: REQUIRED IMPLEMENTATION ACTIONS FOR IMPROVING FINANCIAL PROCESSES

	Required implementation actions	Deadline
To be completed in FY2022	▪ Include a reference to transfer knowledge and train agency employees on all professional service contracts to lower dependency on third-party vendors and consultants over time	▪ Delayed – July 2021
	▪ Define and implement plan to address financial process concerns related to weekly/monthly soft-closings and year-end closing	▪ Delayed – September 2021
	▪ Institute a weekly/monthly budget-to-actual analysis to monitor progress on defined plan among programs	▪ Delayed – September 2021
	▪ Define an implementation plan to address all findings identified in state and federal audits, digitize the procuring process, establish clear segregation of duties, and enforce comprehensive internal controls.	▪ Delayed – September 2021
	▪ Define an implementation plan to transfer to modified accrual accounting, as established by PROMESA, to allow for timely expense recording in books and in compliance with 203 reporting	▪ Delayed – December 2021
	▪ Finalize the implementation of the plan developed to address all findings identified in state and federal audits, digitize the procuring process, establish clear segregation of duties, and enforce comprehensive internal controls.	▪ Delayed – January 2022
	▪ Analyze consultant contracts in order to evaluate the commencement date of the services rendered and develop a plan to train PRDE employees capable of carrying out these functions, as a way to decrease dependency on external contractors	▪ Delayed – January 2022
	▪ Finalize the implementation of modified accrual accounting, as established by PROMESA, to allow for timely expense recording in books and in compliance with 203 reporting	▪ Delayed – May 2022
	▪ Identify discrepancies in PRDE and Hacienda accounts codes, and implement the account numbers/codes established by Hacienda to avoid future discrepancies	▪ Delayed – May 2022

14.4 Department of Health (DOH)

As of 2021, the Government has several health-related agencies that are highly fragmented: five public corporations, and two agencies, with nine public hospitals in total. One of the agencies is the Department of Health with seven health regions and sixteen programs—each of them, with their own back-office support functions. Such fragmentation has driven up cost and inefficiency, as each agency is required to provide its own human capital management, procurement, and financial support. Patient experience and care delivery have also suffered as residents' cases are frequently transferred among frontline staff.

Additionally, access to care on the Island is significantly lower when compared to national averages. This is especially the case outside of the San Juan metro area, given the shortage of clinics and trauma centers. As of December 31, 2020, there were 110 Health Professional Shortage Areas (HPSA)[274] and 72 Medically Underserved Areas[275] in Puerto Rico. Based on the number of additional physicians required to remove HPSA status, as of September 30, 2020, Puerto Rico meets 1.91% of demand for primary care (versus the 44.52% national average),[276] 16.56% of demand for dental care (versus the 29.28% national average),[277] and 14.60% of demand for mental health services (versus the 26.9% national average).[278] In Puerto Rico, this fragmented and resource-constrained healthcare system has resulted in several issues, including health outcomes that are significantly poorer than national averages.

274 "Designated Health Professional Shortage Areas Statistics, First Quarter of Fiscal Year 2021." Health Resources and Services Administration
275 HRSA Tools, MUA Find. Accessed March 25, 2021
276 Primary Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed April 8, 2021
277 Dental Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed April 10, 2021
278 Mental Health Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed April 10, 2021

The 2022 Fiscal Plan requires the Department of Health to consolidate the following six healthcare agencies: Department of Health (DOH); Medical Services Administration (ASEM); Health Insurance Administration (ASES); Mental Health and Anti-Addiction Services Administration (ASSMCA); Cardiovascular Center of Puerto Rico and the Caribbean (CCPRC); and Center for Research, Education, and Medical Services for Diabetes (CDPR) (*Exhibit 112*).[279] Consolidating these six agencies will provide the opportunity for rightsizing support functions, as well as centralizing procurement to provide savings on costly medical materials, equipment, and services. This new consolidated agency should enable efficiencies while focusing on providing a high-quality public health care system.

EXHIBIT 112: AGENCIES INCLUDED IN FUTURE STATE DEPARTMENT OF HEALTH GROUPING

1 Department of Health	4 Puerto Rico and the Caribbean Cardiovascular Center Corporation
2 Health Insurance Administration (ASES)	5 Center for Research, Education and Medical Services for Diabetes
3 Medical Services Administration (ASEM)	6 Mental Health and Addiction Services Administration

To date, the Government has achieved no progress towards this requirement. Legislation presented in December 2019 that was needed to execute the first phase of consolidation (consolidation of ASES and DOH) was not recommended by the Senate's Health Commission, and legislation to consolidate the remaining health agencies has not been drafted.

While ASEM has made initial progress on initiatives to improve supply chain management (e.g., procurement centralization), these initiatives remain in the early stages and must be expanded to other health agencies in order to achieve target savings. The revenue cycle management optimization initiative has also been delayed for over a year, though a third-party provider has been selected and the project was launched in March 2021. Moreover, while an Electronic Health Records (I) system has been deployed in the ASEM emergency room, the ASEM Trauma Hospital, the DOH University District Hospital for Adults (UDH) and the University Pediatric Hospital (HOPU). EHR capabilities and digital hospital management tools across the health agencies remain limited since systems are fragmented and information is not integrated or shared between systems, creating a barrier to realizing operational efficiencies and lacking a standardized reporting system.

This lack of progress in improving the public healthcare system is particularly problematic given the major crises Puerto Rico has faced in recent years – and may continue to face. Though Puerto Rico has weathered the COVID-19 pandemic well thus far, with one of the lowest per capita death rates of any U.S. state or territory,[280] there have been spikes throughout the year as tourists and others return to the Island for holidays and vacations.[281] Moreover, provider infrastructure and patient access has not yet fully recovered since Hurricane María, with just 10,580 health professionals serving the entire population of 3.2 million people in 2019.[282] While DOH has moved to counter some of these issues by coordinating patient care with private hospitals, the lingering after effects of the hurricane and COVID-19 may still be a challenge to the health system in the future.

279 University of Puerto Rico Comprehensive Cancer Center will likely remain separate but is maintained in the Health Grouping given no formal legislation passed as of April 2022.

280 Coronavirus in the U.S.: Latest Map and Case Count. NY Times. Accessed March 25, 2021

281 "'Chaotic Situation': Puerto Ricans indignant at tourists breaking Covid mandates." NBC News, March 20, 2021

282 "A 13-year-old's death highlights Puerto Rico's post-Maria health care crisis." Vox, Feb 27, 2020. Accessed March 25, 2021

To counter the pressures that the COVID-19 pandemic has placed on the public healthcare system, the Oversight Board and the Government made investments of $309 million during FY2022, dedicated to targeted infrastructure expansion and improvements. These funds are being invested to enable the Government's near-term response to COVID-19 and to position the healthcare system to meet the needs of Puerto Rico. Specifically, (1) to address critical infrastructure gaps in Hospital and Health Facilities, (2) to increase capacity by expanding Public Hospitals, (3) invest in specific CDTs and Medical Facilities and (4) to improve technology with Medicaid IT and Public Hospital IT system. The Oversight Board is monitoring the use of these funds to ensure they are spent effectively and in areas of true need. As of December 2021, most of the projects, with $309 million targeted infrastructure investments have initiated the procurement process, however only 40.4% of the funds have either been encumbered and/or disbursed (See *Exhibit 113* below for more detail).

This additional funding has been complemented by funds from federal legislation related to the COVID-19 response, which are allocated to public and private sector health care providers. Major estimated funding flows for Puerto Rico include more than $2.4 billion in healthcare related programs, under the Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act, the CARES Act, the CRRSA Act, and the ARP Act. These include funds for emergency medical supplies, COVID-19 testing, contact tracing, and vaccination, as well as funding for programs like the Provider Relief Fund, the Public Health and Social Services Fund, and the Community Healthcare allocations.

Given the amount of investment in the health system in the wake of COVID-19—and the importance of a well-functioning health sector to help Puerto Rico exit the pandemic, it is particularly urgent and important for DOH to deploy these funds effectively across various priorities. Without meaningful change—both through efficiency measures as well as targeted investments in the public health provider system—the health agencies will continue to falter in their mission to provide adequate health services for the people of Puerto Rico.

14.4.1 Investments to enhance healthcare services

Ensuring access to high quality, affordable healthcare for Puerto Rico continues to be a top priority of the Government and Oversight Board. In accordance with this priority and given the increased public health needs driven by the earthquakes and the COVID-19 pandemic, the 2020 Fiscal Plan recommended and included several strategic investments for the health system. Over the last year, the Oversight Board has worked with DOH, ASSMCA, ASEM, University of Puerto Rico Comprehensive Cancer Center, Cardiovascular Center Corporation, and the University of Puerto Rico Medical Sciences Campus to ensure the funds are being spent effectively. Unfortunately, many funds remain unspent. However, there are plans to complete the projects and see them through fruition with the objective to spend much of what is left. Below is a summary of current progress in spending:

EXHIBIT 113: HEALTHCARE INVESTMENTS

		Encumbered + Disbursed Funds, $M						Encumbered + Disbursed Funds, %						
Investment	Total budget as of Jul. 2021, $M	FY21 Q3 As of Feb, 2021	FY21 Q4 As of May 2021	FY22 Q1 As of Sep, 2021	FY22 Q2 As of Oct, 2021	FY22 Q2 As of Nov, 2021	FY22 Q2 As of Dec, 2021	FY21 Q3 As of Feb, 2021	FY21 Q4 As of May 2021	FY22 Q1 As of Sep, 2021	FY22 Q2 As of Oct, 2021	FY22 Q2 As of Nov, 2021	FY22 Q2 As of Dec, 2021	Remaining Balance, $M
DOH	176	8	29	36	51	56	57	4%	16%	21%	29%	32%	32%	120
Public hospital IT	34	0	1	5	6	7	7	0%	3%	15%	17%	20%	20%	27
HURRA	31	-	-	1	1	2	2	0%	0%	5%	5%	5%	6%	29
Medical IT	25	-	17	17	17	17	17	0%	68%	68%	70%	70%	70%	8
HOPU	24	0	0	0	3	4	4	0%	1%	1%	12%	16%	16%	20
Opioid	20	-	-	1	1	1	1	0%	0%	4%	4%	4%	4%	19
DOH	16	-	0	1	6	6	6	0%	1%	9%	37%	40%	40%	10
CDD/CTS	10	4	4	4	5	8	8	42%	42%	42%	53%	81%	81%	2
UDH	9	2	4	4	9	9	9	18%	47%	47%	100%	100%	100%	-
Telehealth	5	-	-	0	0	0	0	0%	0%	2%	2%	2%	2%	5
Medical facilities / Other	3	2	2	2	3	3	3	67%	68%	67%	89%	89%	89%	0
ASEM	50	1	4	10	10	10	10	1%	7%	19%	20%	20%	20%	40
UPRCCC	48	2	41	44	44	45	46	4%	85%	91%	91%	92%	94%	3
ASSMCA	23	-	3	5	6	8	8	0%	14%	23%	26%	33%	36%	15
CCCPRC	9	0	3	3	3	3	3	2%	32%	32%	32%	32%	32%	6
RCM	2	-	1	1	1	1	2	0%	32%	33%	33%	33%	73%	1
Grand Total	$309	$11	$80	$99	$115	$122	$125	3%	26%	32%	37%	40%	40%	$184

In summary, below are the major findings of the most recent progress reported by Health Agencies, as of December 2021:

- $51 million out of $309 million (16.5%) have been reported as disbursed. This represents an increase of 1% when compared to the November 2021 report.
- $125 million out of $309 million (40.4%) have been reported as encumbered and/or disbursed. This represents an increase of 2% when compared to the November 2021 report.[283]
- The expectation is that 188 initiatives representing $74.3 million of the funds will be disbursed before end of FY2022.
- 136 out of 509 initiatives (27%) have been reported as "Completed", which represent $25.2 million of the $309 million (8%). These initiatives have been 100% disbursed.
- 323 out of 509 initiatives (63%) are in progress. They have been reported as "Delayed" or "On track" within the steps of procurement, which represent $269.2 million of the $309 million (87%), of which $98.2 million have been encumbered and/or disbursed.
- 50 out of 509 initiatives (10%) have been reported as "At risk" or "Not started", which represent $14.9 million of the $309 million (5%), of which $1.6 million have been encumbered and/or disbursed.

Capital expansions at public hospitals for hospital and health facility infrastructure

Funds were assigned to address critical, near-term infrastructure needs at public hospitals (e.g., renovation of facilities in major disrepair, installation of air conditioning and purification systems, purchase of power generators) and to complete major capital expansions. These

[283] This bullet was updated to correct an error in a previous version of the 2022 Fiscal Plan document.

investments are meant to ensure that the health system has the capacity and equipment needed to meet the long-term healthcare needs of Puerto Rico.

DOH, ASSMCA, ASEM, University of Puerto Rico Comprehensive Cancer Center, Cardiovascular Center Corporation, and the University of Puerto Rico Medical Sciences Campus originally submitted their Action Plans in September 2020, which included their preliminary implementation plans per project, and since then, shifts in priorities have been made to reflect the most recent funding allocation of $309 million in capital expenditures (CAPEX) projects. At this point, most of the projects have initiated the procurement process, but only 40.4% has been encumbered and/or disbursed to date. Health Agencies underwent an assessment phase during which every site with assigned CAPEX funds was visited to document specific requirements for each project. The majority of the projects completed the assessment phase around the end of FY2021 and are currently in process of performing the ASG auction or evaluating suppliers before reaching the final steps of the procurement process that consist of issuing the Purchase Orders (POs). Delays and minimal progress to disburse funds are due to the magnitude of hospital capital expenditure projects ($309 million), resource capacity constraints, and/or bureaucratic steps within the procurement process that prevent projects to move forward through each step. For projects that require acquisition of new equipment, delays have been reported due to scarcity of goods and/or failure from suppliers to deliver on time as a result of halted global supply chain. Additionally, the dependency of multiple construction projects causes even more delays when not fulfilled simultaneously. Meanwhile, funds assigned for Diagnostic and Treatment Centers (CDTs) have already been transferred to the corresponding municipalities.

Public hospital IT

Funds were budgeted for public hospitals to modernize technology, particularly via implementation of Electronic Health Record (EHR) and digital tools for hospital management. EHR (or digital patient records) can be accessed by all clinicians involved in a patient's treatment in real-time, enabling integrated communication within and across provider facilities, and allowing clinicians to make informed decisions based on comprehensive patient treatment histories. Investing in EHR capabilities is expected to reduce clinical/prescription errors and will reduce administrative burden in public hospitals. Digital hospital management tools allow hospitals to collect and analyze data on patient flow, equipment use, etc. in real-time. Investing in these tools will enable operational improvement in public hospitals.

The Cancer Center has been assigned ~$8 million out of this funding pool to complete the implementation of the EHR. Specifically, the objective is to continue the development of the necessary infrastructure and implementation of the EHR's project in order to comply with the requirements stipulated by the Centers for Medicare and Medicaid Services (CMS) and the different health insurance providers.

Telehealth infrastructure

Funds were budgeted at DOH to implement telehealth infrastructure to address the urgent need to improve access to care outside the San Juan municipal area. Advancements in telehealth infrastructure would allow patients to receive care more seamlessly from physicians regardless of patient location. This is particularly beneficial to people living in rural areas, and to all of Puerto Rico during periods of heightened physical distancing. The goal is for the funding to be invested in a telehealth platform and/or to develop access points in facilities (e.g., FQHCs) located in underserved areas.

During FY2021, DOH established a plan for implementing telehealth portals which included the following activities : 1) carrying out a diagnosis of telehealth needs in communities and facilities in at least three health regions; 2) developing a map of the resources and needs identified; 3) defining the technological infrastructure specifications of telehealth; 4) developing and implementing a plan to acquire and effectively install the telehealth portals; 5) developing a

monitoring plan for the use of telehealth equipment; 6) designing and developing a Health Department telehealth portal.

Furthermore, DOH successfully identified sites outside of the Municipality of San Juan for potential installation of telehealth portals. The Department identified seven CDTs as well as sites of four community organizations. As reported by DOH, these entities represent key agents for reducing healthcare access barriers. DOH will work with the entities to formalize the collaboration agreement. However, DOH has disbursed 2% of allocated funds ($115,000).

Further actions to be achieved during FY2022 include procurement, purchase, and installation of the telehealth portals at the sites identified, as outlined in the required implementation actions found in *Exhibit 115*.

Combating the opioid crisis

Approximately $20 million dollars was allocated to Fiscal Years 2020 and 2021 to combat the opioid crisis, which remains a pressing concern for Puerto Rico. (The full extent of the tragedy remains unknown, as data quality from Puerto Rico has been contested). Funding could have been used to procure and distribute overdose reversal drugs, invest in community health events, and scale existing opioid treatment programs.

In FY2021, DOH identified three important action items that must be achieved in order to combat the crisis: 1) Developing a collaborative action plan to acquire and distribute overdose reversal medications as an opioid treatment initiative; 2) Evaluating existing opioid treatment programs to improve support and investment in community health events; and 3) Developing the technological infrastructure / capacity for the collection and sharing of opioid-related data to support informed decision-making.

DOH and ASSMCA are jointly undertaking efforts to support the implementation of improvements and expansion of Puerto Rico's Prescription Drug Monitoring System (PDMP). ASSMCA administers the PDMP in Puerto Rico and is responsible for the improvements to be made to the system. To this end, DOH established a collaboration agreement (MOU) with ASSMCA to develop a joint work plan. DOH and ASSMCA agreed to invest in improvements to the PDMP. This approval was granted by Puerto Rico Information Technology Service (PRITS) at the end of May 2021. By mid-July 2021 the vendor was able to integrate a module which automatically analyzes PDMP data and a patient's health history and provides patient risk scores and an interactive display of usage patterns to help identify potential risk factors. These improvements to the PDMP should result in the strengthening of monitoring capacities, use of data, and access to statistics on prescriptions of controlled substances; the provision of timely and reliable information on providers and patients; and the proactive identification of potentially problematic or illegal behaviors related to opioid prescription.

In addition, DOH must develop public awareness campaigns and education on the prevention of, misuse and overdose of opioids across health regions. Moreover, they must continue to evaluate the action plan for the provision of opioid treatment and forensic analysis, in collaboration with relevant government agencies. Action items related to Opioid Prevention are outlined in *Exhibit 115* under the required implementation actions DOH must achieve.

Loan forgiveness program and endowment fund

This investment is to fund an independently managed $30 million loan forgiveness program which will support healthcare students and residents (e.g., medical, dental, nursing) who commit to serving in rural and underserved areas.

Actions to retain healthcare professionals in Puerto Rico were deemed necessary to address the escalating healthcare professional shortages of the Island. It is estimated that as of 2018, two-thirds of primary care physicians in Puerto Rico were older than 55 years, as compared with a

national rate of 43%.[284] Prior to the COVID-19 pandemic the Island had already faced with shortages of medics due to a myriad of factors including recent natural disasters and economic challenges.

Over the past decade, retention issues of healthcare professionals that have obtained advanced degrees from medical programs and/or completed residency programs have increased substantially. In a study conducted by the Robert Graham Centre it is reported that only four out of every ten graduates of family medicine residencies from 2011 to 2017 remained on the Island in 2018. Puerto Rico's new family physician retention rate was placed among the lowest in the nation. During that time period, 111 family medicine residents graduated among the Island's four residency programs. Of those 111 graduates, only 45 remained practicing in Puerto Rico in 2018, yielding a retention rate of 40.5%.[285]

Upon successful completion of residency programs, recent medical school graduates are often attracted by potential career opportunities with higher salaries on the mainland. Through this Medical Student Loan Forgiveness Program, the Oversight Board seeks to decrease the percentage of provider to population gap by both increasing the retention rate of recent medical student graduates through economic incentives for medical students who attend and graduate from medical programs of universities in Puerto Rico as well as attracting medical students from the mainland to healthcare job opportunities on the Island. The economic incentives will be in the form of a medical student loan forgiveness program to be awarded to eligible students or residents upon completion of approved worked experience with program partnered organizations.

The 2020 Fiscal Plan allocated a total of $30 million over two fiscal years to be used to establish an independently managed loan forgiveness program in order to incentivize doctors to practice in underserved areas in Puerto Rico. Funding in the amount of $10 million were budgeted during Fiscal Year 2020 and $20 million were budgeted for Fiscal Year 2021. Under this program, each medical student or resident would be eligible for up to $25,000 of loan forgiveness per year of service – up to four years – in underserved areas and the program would be administered by an independent third party. To date, AAFAF has drafted the RFP to identify the third-party vendor for the Medical Student Loan Forgiveness Program, however, the same has not been published. In recent communications, AAFAF has cited that a Program Committee should be established and PRDE should be the presiding member in charge of these efforts, nevertheless, AAFAF will participate as an active member of said Committee. Specific action items that must be achieved for this initiative are outlined in *Exhibit 115* under required implementation actions.

Hospital Accreditation

During FY2020 and FY2021, $6 million each year ($12 million total) was allocated to ASSMCA's Dr. Ramón Fernández Marina Río Piedras Psychiatric Hospital to enable the hospital to receive accreditation by the CMS. The hospital lost its accreditation in 2009, and since then has been unable to bill for services rendered to their Medicaid and Medicare patient population.

The additional funds were intended to be used to increase care standards by making physical repairs to the hospital and improving staffing levels in order to comply with CMS regulations. In addition, ASSMCA was allocated $43.8 million in CAPEX funds during FY2020 (extended to be used during FY2021) to purchase anti-ligature beds, eliminate hanging points and to perform capital improvements to the hospital's structure and other facilities.

To date, the hospital has not yet received certification, though there are plans in place to receive it in FY2023. The certification process can take years to achieve, though the agency argues that recent delays in the process have been mainly due to the COVID-19 pandemic, specifically with the recruitment of personnel. Agency claims recruitment is now limited as workforce has been

284 Bureau of Health Workforce Health Resources and Services Administration (HRSA) – Designated Health Professional Shortage Areas Statistics; Third Quarter of Fiscal Year 2020, Designated HPSA Quarterly Summary, June 30, 2020
285 Robert Graham Center Report: A Shrinking Primary Care Workforce in Puerto Rico, Dec 13, 2019

hesitant to work on site and unwilling to be exposed to COVID-19. Additionally, in order for the hospitals to be compliant with regulatory agencies, ASSMCA must perform capital improvement projects to address infrastructure issues raised by regulatory agencies. These capital improvement projects have been delayed for months due to an existing backlog of requests at GSA. However, GSA has confirmed that these projects have been prioritized and expects to have all RFPs published by the end of FY2021. The 2022 Fiscal Plan allocates ASSMCA $10 million over two years, starting in FY2022 to comply with minimum staffing levels at the hospital so that the regulatory requirement is met.

Achieving this certification is of upmost importance to ensure that the people of Puerto Rico have access to accredited mental and behavioral health inpatient services within the public healthcare system. Additionally, being able to bill for services rendered to the Medicaid and Medicare patient population will increase revenues, which can then be reinvested in hospital infrastructure and programs for further improvements. ASSMCA aims to achieve the CMS Accreditation by September 2022. In order to achieve this the agency must first accomplish several steps including but not limited to: 1) recruitment of the necessary personnel to comply with minimum staffing levels, 2) creation of rules, policies, and procedures among the different functional areas, 3) finalizing capital improvement projects directly related to the hospital accreditation, 4) CMS inspector visit, and 5) receive a visit from the Joint Commission auditors. Once the hospital has received the letter of recommendation and accreditation from CMS and the Joint Commission, the hospital can start billing for the Medicaid and Medicare patient populations. Action items that must be achieved by ASSMCA for this initiative are outlined in *Exhibit 115* under required implementation actions.

ASEM has the only Trauma Hospital on the Island providing specialized care to adult and pediatric patients with multiple body trauma. This includes the Virgin Islands as well. Additionally, the Adult University Hospital is the only supra tertiary public hospital of Puerto Rico. Both institutions serve as an Academy Program for different health professionals where 24 Residency Programs are offered. These Residency Programs include Neurosurgery, Anesthesiology, Dermatology, Surgery, Physical Medicine and Rehabilitation, Neurology, Diagnostic Radiology, Nuclear Medicine, Cardiology, Infectious Diseases, Hematology and Oncology, Nephrology, Rheumatology, Gastroenterology, Endocrinology, Allergy and Immunology, Infectiology, Obstetrics and Gynecology, Orthopedics, Ophthalmology, Otolaryngology and Head & Neck, Pathology and Laboratory Medicine, Urology, and Combined Internal Medicine & Pediatrics. During April 2021, the Accreditation Council for Graduate Medical Education (ACGME) withdrew the accreditation (effective July 1st, 2022) for the Neurosurgery Residency Program, which had been in probation for the past years. Some of the ACGME findings were related to deficiencies found in both academic and clinical staff–support required - not previously addressed by ASEM and UDH. As such, the 2022 Fiscal Plan allocates a $15.2 million budget to be used to hire additional House Staff and Clinical Staff (General Nurses, Licensed Practical Nurses, Direct Patient Care Clerks, etc.) which will directly support the continuity of the 24 Residency Programs at the institutions. The $15.2 million appropriation will be split among ASEM and UDH according to information presented by the agencies.

Implementation of Electronic Health Records at the Cancer Center

The 2022 Fiscal Plan allocates to the Cancer Center a $20 million investment over two years, contingent upon Cancer Center completing certain actions. By May 2021, the Cancer Center must provide a Business Plan detailing specific actions the Center will take to become sustainable by FY2024. If this is completed, the Cancer Center will have access to a $10 million appropriation for FY2022 which will be held under the custody of OMB. Meanwhile, the Center must also focus on EHR implementation during FY2022. This will allow the Center to properly and timely bill health insurance provides, increase their collections, and reduce margins of error in their billing process. If EHR implementation is completed in FY2022, the Center will have access to an additional $10 million during FY2023. The Center must transition to be self-sufficient and rely

on their own revenues starting in FY2024. Specific action items that the Cancer Center must achieve are detailed in *Exhibit 115* under required implementation actions.

Funding for the Comprehensive Cancer Center

The 2022 Fiscal Plan provides for $10 million in incremental funding for a period of 7 years starting in FY2023 to support cancer research initiatives that will allow the Comprehensive Cancer Center of Puerto Rico to obtain formal federal designation of Cancer Center, which will in turn provide access to additional federal funds. This funding is contingent upon the Cancer Center completing certain milestones as discussed in *Part IV:*

- The Cancer Center must develop and implement an integrated campaign through advertising, digital media, and public relations to promote prevention, early detection and specialized treatment health services programs offered at the Hospital by June 30, 2022.
- The Cancer Center must implement the second phase of the Electronic Health Records, which involves integrating the Financial Modules, by December 31, 2022.
- The Cancer Center must participate in the 340B Drug Pricing Program by obtaining Certifications to purchase prescription drugs at lower cost by June 30, 2024.
- Once the respective milestones are achieved, the Cancer Center must provide a formal notice and submit supporting data corroborating such achievement for the Oversight Board's review.

Maintaining Direct Patient Care Staffing Levels

The 2021 Fiscal Plan included ~$9 million additional annual funding for direct patient care employees working at the Department of Health. The 2022 Fiscal Plan maintains this level of funding. Additionally, all personnel measures impacting the Intellectual Disability Program within the Department of Health have been eliminated, as such, the Program can comply with the minimum budget established by the court.

Fulfilling federal requirements

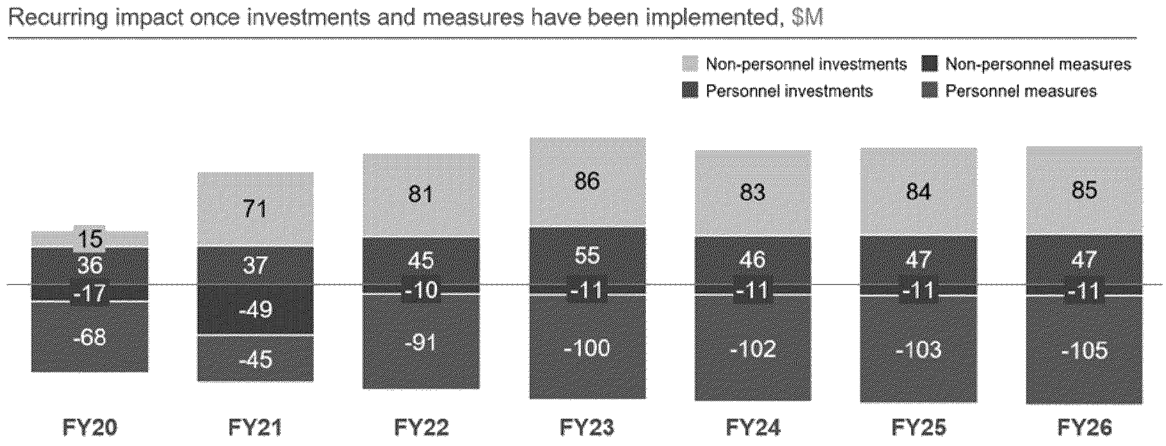
The 2022 Fiscal Plan allocates funding for fulfillment of three federal requirements:

- **Intellectual Disability Program:** The Puerto Rico Division of Services for People with Intellectual Disabilities is required to have certain standards for services, and state appropriations to the program must be fully utilized to meet those standards. A Federal Court found that Puerto Rico failed to use state funds allocated for this purpose from FY2015-FY2019. Accordingly, the 2021 Fiscal Plan allocated $20 million over four years (FY2021-FY2025) in order to reimburse the program. Additionally, as mentioned above, measures related to personnel have been eliminated.
- **Health 330 Centers:** Puerto Rico is required to cover the difference between "reasonable costs" and what is reimbursed by the Medicaid Program for federally qualified health centers (FQHCs). The 2022 Fiscal Plan includes annual funding to cover these "wraparound payments."
- **Psychiatric hospital:** The 2021 Fiscal Plan ensured that the annual budget for the Psychiatric Hospital in Rio Piedras is a minimum of $23 million. To do this, the 2021 Fiscal Plan allocated an incremental $5 million in FY2022 and FY2023 to enable the facility to earn its Medicare certification. The 2022 Fiscal Plan maintains this level of funding. Certification will drive increased revenues, which can be reinvested in the hospital to maintain full compliance with the consent decree.

14.4.2 Overview of efficiency actions

During FY2021, DOH was not required to achieve additional savings over those required in FY2020 – this pause was to progress on implementation efforts across key operational efficiencies. All savings associated to such pause are reinstated in FY2022. From FY2022 to FY2026, DOH must achieve the personnel and non-personnel savings outlined in *Exhibit 114*. The exhibit below does not incorporate the impact that the Uniform Remuneration Plan will have on certain DOH employee salaries.

EXHIBIT 114: DEPARTMENT OF HEALTH INVESTMENTS AND MEASURES SUMMARY OF IMPACT



Consolidating administrative and support functions

Consolidation of health agencies will enable efficiencies in administrative and support areas, including Management, General Administration, Auxiliary Services, IT, and a portion of Hospital Administration. In addition, operational efficiencies are expected to be realized through elimination of duplicative programs across agencies. For example, labor-intensive and/or paper-based processes are expected to be streamlined through digitization and implementation of software solutions.

Thus far, efforts to achieve required savings in this area have focused on consolidation. In FY2019, DOH conducted an analysis to identify support-function savings that could be achieved through consolidation. Legislation to enable consolidation of DOH and ASES was submitted in December 2019, however, approval was not recommended by the Senate's Health Commission of their 18th Legislative Assembly. As a result, progress towards the future state organization has stalled, with agencies citing the need for the passage of legislation and leadership alignment as the prerequisite for implementation. Although there exists an outstanding need to formalize structural consolidation, it is nevertheless critical for health agencies to identify efficiency opportunities (e.g., back-office operational improvements, cross-agency coordination, program consolidation) to drive operational changes and achieve savings. To date, efforts to achieve operational improvements (e.g., implementation of time and attendance reporting, digitalization of finance processes) within health agencies have been stagnant.

Efforts must be undertaken to streamline internal management processes and enable identification of further efficiencies. This must include completing a capacity analysis to identify duplicative roles and programs across health agencies that must be reduced or centralized. By December 2020, DOH was expected to complete such analysis and report that all back-office roles and positions by activity and program were assessed. In March 2021, DOH contracted the services of a third party to conduct a capacity analysis which was completed at the end of FY2021. DOH must now take action and implement efficiencies and task centralizations as identified by the

capacity analysis. Action items related to the Capacity Analysis are outlined in the required implementation actions found in *Exhibit 115*.

Rightsizing of non-administrative health personnel

As the Puerto Rican population declines, spending on non-administrative payroll such as allied health professionals is expected to decline. There are several ways to decrease this spend without impacting health services. For example, wages should be aligned with fair market value to reduce turnover and the associated spend on temporary/overtime workers, and roles and responsibilities should be optimized to skill level and wage rate (e.g., nurses should practice at the "top of their license"). Expected savings for this category were determined using the Government's analysis of need and attrition for DOH and ASEM. Furthermore, health agencies should also optimize staff placement wherever possible. Best practice hospital management tools, such as shift management software, should be used to maximize efficiency. For example, the planning of nurse staffing needs is currently done manually at UDH, which limits the opportunity of allocating resources timely and efficiently depending on Hospital occupancy.

DOH hospitals reported underspending in payroll during FY2021, however, no real long-term savings have been achieved, as the underspending was not related to achieving efficiencies but instead due to the availability of the Coronavirus Relief Funds (CRF) because DOH and ASEM were able to pay for regular payroll expenses via the Program for Emergency Assistance to Public Hospitals. Meanwhile, hospitals have yet to implement best-practice operational tools to manage personnel. Currently, personnel and/or payroll records remain decentralized and outdated. Accordingly, health agencies have been unable to provide consistent and comprehensive historical or current data on clinical staff roles. Some hospitals report target staff-to-patient ratios, but data on utilization, patient flows, and staffing levels is not consistently collected nor digitalized. Furthermore, human resources processes (e.g., payroll, hiring) are overly complicated and inefficient.

Simplification and streamlining of these processes will reduce administrative burden and improve operational efficiency. Public hospitals must utilize IT investments to implement digital clinical management tools that can enable consistent data collection, reporting, and identification of opportunities for operational optimization.

Consolidating regional Medicaid offices

At the end of FY2018, the Medicaid Program within DOH had 85 offices that provided face-to-face service to the public across the 78 municipalities. To date, the Medicaid program has successfully reduced the number of offices to 66. These 66 offices are located across 78 municipalities. Savings from this Medicaid office consolidation (which relate to savings on office space and equipment rental, utility expenses, and cleaning services) reached ~$440,000 in FY2019 (out of a total of $500,000 required), and additional office location consolidations were being considered; however, due to COVID-19 this effort had been deprioritized. During FY2022 DOH must re-engage in this initiative and achieve the full amount of savings ($500,000 required) by June 2022 as outlined in the required implementation actions found in *Exhibit 115*.

Reducing the Medicaid office and regional hospital office footprint eliminates duplication of effort and allows DOH to provide more robust services at strategic locations. In addition, DOH, through the Medicaid Program and in connection with ASES, must redesign the Medicaid eligibility and enrollment process to be more web-based, dependent on managed care organizations (MCOs), and hospital-centric, and to encourage the use of digital services to improve data management. Key priorities going forward relate to operational improvements and digitization of the Medicaid eligibility and enrollment process, which are discussed in *Section 16.3.1*.

Optimizing supply chain management

Implementation of procurement best practices and leveraging economies of scale must also be extended to non-healthcare categories (e.g., office and general maintenance supplies, security

services). Such initiatives are expected to be enabled by agency consolidation and operational streamlining. While ASEM has made progress in achieving savings on medical supplies (*Exhibit 115*), non-hospital procurement savings have been minimal across health agencies. To help expedite savings initiatives, the Government must leverage its ability to utilize the General Services Administration's (GSA) procurement services and rates for non-hospital related purchases.[286] Full utilization of these services can drive additional procurement savings.

With the upcoming centralization of procurement employees into GSA, as established by the new GSA Regulation 9230, additional efficiencies within the supply chain management process must result in the savings outlined by the 2022 Fiscal Plan. Procurement savings specific to hospitals are discussed in *Chapter 16*.

Transforming hospital management

Due to the level of spending and rising costs of medical supplies, services and equipment, there is a significant opportunity to improve procurement efficiency for hospitals and health systems by focusing on commodity standardization and sourcing, indirect spending (analyzing insourcing versus outsourcing opportunities), and physician preference item optimization.

ASEM was created to serve as a central procurement office for the member institutions of the Puerto Rico Medical Center to create economies of scale for medical supplies, devices, and services. Over time, procurement costs have increased at a higher rate than those of the broader healthcare industry, while procurement processes have become decentralized across the institutions that ASEM was created to serve.

Efforts to address this issue have started with the UDH working with ASEM to centralize purchasing and establish competitive bidding. These early efforts have yielded reported savings of ~$11 million as reported by ASEM.[287] However, the opportunity exists for more health agencies and facilities (e.g., HOPU) to participate in procurement centralization, and efforts must be made to expedite this cross-agency cooperation. For FY2022, ASEM must focus on identifying common administrative services (i.e., maintenance, cleaning, security services) and medical supplies across health agencies and public corporations with opportunities for savings through procurement centralizations as outlined in the required implementation actions found in *Exhibit 115*.

Holistic hospital transformation efforts must also reduce payroll spend through clinical labor optimization, which is captured in *Chapter 16*. To date, the health agencies have made successful progress toward a full implementation of Electronic Health Records (EHR), except for the UPR Comprehensive Cancer Center (CCCUPR), where implementation remains in process with completion scheduled for mid-FY2022. For those hospitals that have made substantial progress toward EHR implementation, financial savings from deployment and use have not yet materialized, as reported.

The Cancer Center attributes delays in implementing EHR to the contract approval process. The absence of EHR at CCCUPR not only affects the level and quality of patient care, but also leads to delays in the billing cycle. These delays in turn decrease collection rates with insurance providers, affecting the hospital's revenues. By FY2022, the Icer Center must go live with the EHR. As discussed in *Chapter 16*, hospitals must leverage available IT investments to implement digital clinical management tools in the near-term.

Restructuring ASEM and Revenue Cycle Management (RCM)

Optimized revenue cycle management allows hospitals to establish the most advanced, efficient, and effective clinical services registration, improve effective billing of services, timely collection on account receivables, as well as health care utilization and patient discharge management. By

[286] GSA order OGP 4800.2I (July 19, 2016).

[287] Reported by ASEM: Strategic Plan FY2020-2021 dated January 4, 2021

working with analytics experts, ASEM will increase the speed and accuracy of claims processing, improve collection rates with external payors, and maximize revenue.

ASEM had already selected a vendor to outsource revenue cycle management through a competitive process and expected to finalize an outsourcing contract by February 2020. However, launch of the project was significantly delayed due to the COVID-19 pandemic and delays in the contracting process. ASEM resumed its efforts, and the contract was signed during the third quarter of FY2021.

The Revenue Cycle Management contractor began providing service to ASEM and UDH in mid-March 2021. The RCM was implemented using a three-phase approach. The first phase has already been completed and consisted of on-boarding staff for a period of two weeks by providing training and hands on practice/shadowing of the tasks they must execute. The next step included a pre-operational phase where the RCM contractor continued to train staff and hold operational meetings to discuss areas of improvement and opportunities with the clinical and administrative teams. In the final phase, the RCM contractor became fully operational and in charge in June 2021.

Given the recent implementation of the RCM, no significant savings or increased revenue and collections have been achieved to date. For FY2023, ASEM must continue with the implementation of the RCM and review and monitor the current provider's performance as outlined in the required implementation actions found in *Exhibit 115*.

14.4.3 Required implementation actions

To achieve the 2022 Fiscal Plan requirements, the DOH grouping must complete key operational efficiencies as outlined in *Exhibit 115*.

EXHIBIT 115: REQUIRED IMPLEMENTATION ACTIONS FOR THE DEPARTMENT OF HEALTH

	Required implementation actions	Deadline	Status
To be completed in FY2021	Launch ASEM revenue cycle management (RCM) initiative with engaged vendor	May 2020	Completed
	Develop near-term and long-term plan to improve clinical operation, data consolidation, including identification of hospital management software / solutions	June 2020	Delayed – March 2022
	Identify common administrative and medical supplies across health agencies and public hospitals with opportunities for savings through procurement centralization	June 2020	Delayed – March 2022
	Develop plan to hire additional nurses to maintain staffing levels, and optimize deployment across DOH facilities	September 2020	Delayed – July 2022
	Identify 10+ sites (e.g., FQHCs, community centers) outside San Juan for potential installation of telehealth portal	September 2020	Completed
	Identify opioid treatment initiatives / organizations for investment and partnership with DOH	September 2020	Completed
	Finalize design of medical student scholarship and identify potential federal matching funding	September 2020	Completed
	Develop proposal for hospital capital improvement projections, including recommended vendors, detailed cost estimates, and timelines for completion	September 2020	Completed
	Conduct capacity analysis to identify duplicative roles and positions across agencies/programs and opportunities for centralization of duplicative tasks	December 2020	Delayed – July 2022
	Work with providers to develop action plan to enable telehealth, including required tools/software	December 2020	Completed
	Centralize procurement of identified administrative and medical supplies within ASEM	December 2020	Delayed – June 2022
	Enact legislation to consolidate DOH and ASES and launch consolidation implementation efforts	March 2021	Delayed - TBD
To be completed in FY2022	Cancer Center- Develop Business Plan to become sustainable by FY2024.		Completed
	Publish RFP to identify third party vendor for the Medical Student Loan Forgiveness Program		Delayed - February 2022
	DOH- Execute public awareness campaigns on Opioid prevention and provide an update on the Prescription Drug Monitoring System		January 2022 (ongoing)
	ASSMCA- Provide monthly reports on CMS accreditation status		January 2022 (ongoing)
	Select vendor a third-party vendor for the Loan Forgiveness Program and sign contract		Delayed - March 2022
	ASEM -Review the current providers performance on the RCM, report savings and KPI's.		January 2022 (ongoing)
	DOH- Complete the procurement, purchase and installation of the Telehealth Portals		Delayed – June 2022
	Cancer Center- Fully implement Electronic Health Records		June 2022
	DOH- Finalize all Medicaid office closures to achieve the full savings projected in the Fiscal Plan		June 2022
	ASSMCA- achieve CMS accreditation and start billing for Medicare and Medicaid patients		September 2022
	Cancer Center- Become self-sufficient and rely on SRF's by FY2024		June 2023

14.5 Department of Public Safety (DPS)

The Department of Public Safety (DPS) is an agency grouping which was approved by Puerto Rico's Legislature in 2017 (Act 20) and includes seven bureaus responsible for **ensuring safety and security for all residents of the Island** (*Exhibit 116*). The DPS grouping includes the following agencies:[288]

EXHIBIT 116: LIST OF BUREAUS IN DEPARTMENT OF PUBLIC SAFETY GROUPING[1]

1. Puerto Rico Police Bureau (PRPB)
2. Firefighters Corps
3. Emergency Medical Services Corps
4. Emergency Management and Disaster Administration Bureau
5. 9-1-1 Services Governing Board
6. Special Investigation Unit
7. Department of Public Safety

1 Bureau of Forensic Science Institute will remain separate of the Department of Public Safety grouping

Of all Commonwealth agencies, the second largest agency by spend and personnel is the Puerto Rico Police Bureau (PRPB), representing ~85% of total DPS spend. Based on reports as of July 2017, over 2,000 of the 13,000 sworn officers in the Police were fulfilling administrative roles. This situation has persisted since 2013, when a consent decree agreement with the U.S. Department of Justice on reform measures compelled PRPB to conduct a staffing allocation and resources study to assess the proper size of the police force. This study, completed in May 2018, found that PRPB needed to rebalance its workforce and move sworn officers to non-administrative roles to improve personnel resource allocation and maximize public safety. The 2022 Fiscal Plan adopted key recommendations from the study to outline necessary efficiency actions, including transitioning sworn officers to the field, adding civilians to backfill administrative roles, and increasing police salaries to bring to competitive levels as compared to the mainland by FY2021.

For other DPS bureaus, the 2022 Fiscal Plan requires consolidation of back-office functions and optimization of non-personnel spend, while allocating funds for priorities such as consent decree compliance, materials and equipment, and salary increases for the Firefighters Corps. Specific investments and other funding are outlined below.

To date, the Department of Public Safety has made some progress towards consolidating back-office roles through the creation of a shared services structure within DPS, implemented a time and attendance system for its shared services structure as well as 4 of its 6 bureaus, and digitized all forms (including the CAD system/incident reporting). The formation of a shared services structure within DPS, although implemented in FY2021, has added bureaucracy, and created additional hurdles related to Procurement and Recruitment affecting the performance of the agencies within the umbrella. As a result, the Institute of Forensic Science of Puerto Rico, separated from DPS effective December 1, 2020, and took with it all efficiency measures related to the Institute.

As of October 2021, PRPB reported that ~2,400 of 11,473 sworn officers were still performing administrative roles, with an additional 542 providing support as police escorts and task forces. A combination of high historic attrition rates, the agency's continued inability to hire additional civilian staff, and a push for headcount reductions through Voluntary Transition Programs (VTP) has led to a shortage of field officers and increased overtime spend. PRPB implemented two

288 Forensics Sciences has been maintained as an independent agency per Act 135-2020. Fiscal Plan savings expectations for agencies do not change if they are determined to remain independent versus consolidating. As such, 2022 Fiscal Plan targets for Forensics will not change

academies and recruited 255 cadets in FY2021 to address this shortage, but despite these efforts, PRPB has struggled to hire civilians and to enable more cadets and sworn officers to move into field roles.

Recruitment difficulties – for front and administrative roles - continues to be a major hurdle amongst other DPS bureaus as well. The Fire Bureau began their first academy since 2016 during May 2021, mainly due to delays throughout the entire fiscal year in candidate selection. The academy was scheduled to recruit 160 firefighters and graduate by December 2020, but a total of 140 new recruits were graduated during December 2021. The Emergency Medical Services Bureau has yet to recruit staff for 44 vacant positions during FY2022. As such, the 2022 Fiscal Plan highlights the need to drive actual changes in processes and back-office efficiencies, as relying on retirement incentive programs to reduce frontline staff has the potential to negatively impact service levels. The currently unfolding COVID-19 crisis further necessitates DPS bureaus to resolve recruitment issues by utilizing payroll investments provided by the 2022 Fiscal Plan (see below) to maintain service levels.

14.5.1 Investments in safeguarding public safety

The 2021 Fiscal Plan included continued investment in public safety for Puerto Rico. The 2022 Fiscal Plan maintains these investments. The below detailed investments were intended to enable the Bureaus to hire and retain frontline employees and work with proper and sufficient equipment. Investments included:

- **Sworn police officer salary increase (~$160 million per year):** The 2022 Fiscal Plan continued the provision of funds to support the 30% increase in salary relative to FY2019 levels (which already included a $1,500 raise per sworn officer instituted at the beginning of FY2019), provided in two installments of 15% each in FY2020 and FY2021. It also maintained increased funds for life and disability insurance ($250 per year per sworn officer), employer Social Security contributions for all police starting in FY2020, and Law 70 contributions.
- **Plan Vital for current and future retired police officers:** The Government has indicated a need to provide continued health services to those who protect the Island's population in their years of retirement. As such, the 2022 Fiscal Plan includes an initiative to support the medical costs that will be endured by retired police officers. The average annual cost of this incremental spending initiative from FY2022 to FY2051 is ~$23 million. These costs are estimated to be $8 million in FY2023, $10 million in FY2024, and rise steadily thereafter before reaching a peak of $35 million in FY2038. This initiative will ensure that police officers have access to the Vital program in their years after service to the Island, only for the period from retirement to qualification for Medicare. The initiative includes both currently retired police officers, as well as active police officers upon their expected retirement. It should be noted that police officers that retired after Act 3-2013 became effective are not entitled to the $100 per month contribution for health insurance. Recognizing that ASES will need to expand Medicaid benefits in order to maximize the new Medicaid federal funding cap, the Board expects this incremental spending initiative to be funded by the increased federal funds as part of the planned Puerto Rico Medicaid Program expansion (see *Chapter 16* for more details on the Medicaid program).
- **Investments in the Police Bureau for Capital Expenditures ($20 million per year):** The 2021 Fiscal Plan provides additional funds for new vehicles and fleet replacement. The 2022 Fiscal Plan maintains this level of funding.
- **Investment in Firefighter salaries (~$8.1 million per year):** The 2022 Fiscal Plan continued to provide funds to support the $1,500 salary increase provided initially in FY2020 for all ranking officers and provides the funding required to preserve the FY2021 $1,500 salary increase for all Fire Bureau employees, which has an identified source of funds provided in Act 181-2019, as amended. Furthermore, the 2022 Fiscal Plan provides for an additional $1,500 salary increase ($2.737 million per year) starting FY2023, which has a source of funds

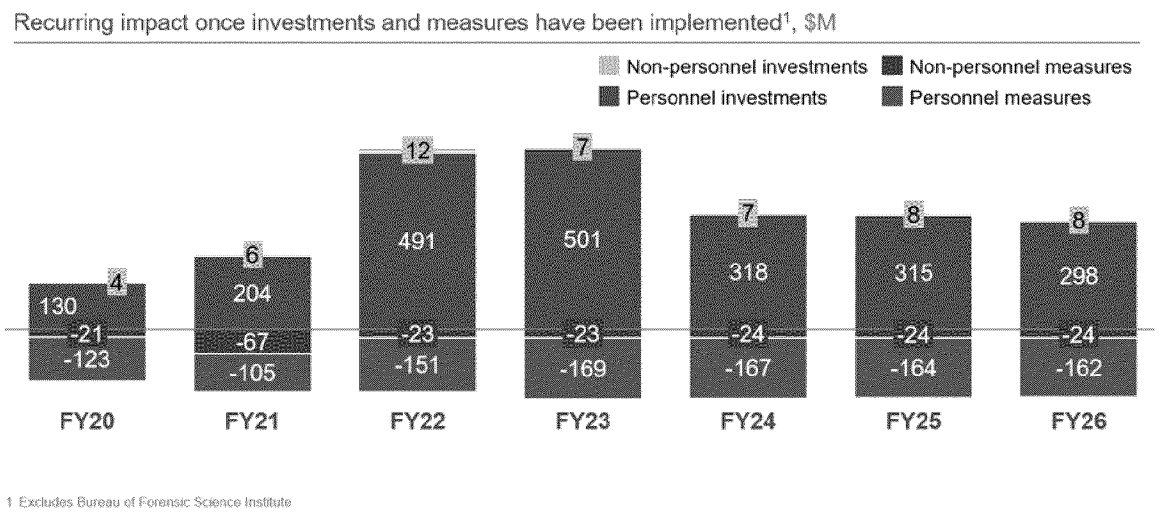
Special Revenue Funds identified, representing no incremental impact to the surplus. The additional salary increase in the base salary will be applicable to the current base salary scales of all classifications established at the beginning of their employment with the Fire Bureau. Once the increase is applied, it will be applicable to every active employee and new recruits by the Fire Bureau after June 30th, 2022.

- **Investments in personnel for Emergency Medical Corps (EMS):** Since 2017, EMS has registered an improvement in its response time by 14 minutes despite facing attrition of ~100 paramedics. Considering the unfolding COVID-19 emergency, the 2020 Fiscal Plan provided funding to the Bureau to recruit additional paramedics and further improve response time to U.S. mainland standards. Therefore, the 2022 Fiscal Plan continues to provide an annual investment of $1.1 million towards the recruitment of paramedics and dispatchers.
- **PRPB reform:** $20 million annual investment in 212 areas of police improvement for three consecutive years since FY2020. The 2022 Fiscal Plan includes funding to meet the requirements of the agreement/consent decree.
- **Police overtime:** The 2020 Fiscal Plan included $6.58 million funding for overtime pay and implementation and maintenance of the Kronos electronic timekeeping and overtime management system. An additional $6.6 million were provided by the 2021 Fiscal Plan during FY2022. The 2022 Fiscal Plan maintains this level of funding.
- **Investments in personnel and materials for Institute of Forensics:** $4.7 million in payroll to enable the hiring of forensics scientists, pathologists, examiners, and DNA specialists. The 2022 Fiscal Plan continues an investment in Forensic Sciences Institute of $2.3 million, for this same purpose.

14.5.2 Overview of efficiency measures

DPS was not required to achieve additional savings in FY2021 over those required in FY2020. This delay in incremental measures was intended to provide funding urgently needed to implement efficiency efforts. However, from FY2022 to FY2025, DPS must achieve the personnel and non-personnel savings outlined in *Exhibit 117*.

EXHIBIT 117: DEPARTMENT OF PUBLIC SAFETY INVESTMENTS AND MEASURES SUMMARY OF IMPACT



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Transferring sworn officers out of administrative roles and into the field

As of October 2021, PRPB reported 11,473 sworn officers, of whom ~2,400 are still performing administrative roles, with an additional 542 providing support as police escorts and task forces. Contrary to what the 2020 Fiscal Plan specified, the amount of sworn officers performing administrative tasks has doubled during the past year and a half.

In accordance with the 2022 Fiscal Plan, PRPB should replace sworn officers currently performing civilian duties—such as mechanics, radio operators, record and report keepers, area command statistics compilers, and maintenance workers—with less expensive civilian personnel, and transfer sworn officers out into communities. In doing so, PRPB will be able to provide better services by enabling more officers to work in the field with the community, while reducing overall expenditures for the Bureau.

Fiscal Plans require PRPB to transfer more than 1,000 sworn officers to non-administrative roles between FY2020 and FY2025 and hire an additional ~900 civilian personnel to perform the administrative functions, while also pursuing efficiency measures to reduce the overall need for administrative personnel. PRPB must accomplish this by pursuing process optimization, digitizing incident reporting, automating time and attendance systems, and consolidating statistical reporting. Furthermore, DPS must streamline vehicle maintenance processes through superior scheduling and procurement protocols, which can reduce the need for vehicle maintenance staff, as detailed in *Exhibit 118*.

To achieve additional efficiencies, PRPB must consolidate police stations, transit units, and specialized units to reduce the amount of administrative personnel required (e.g., station desk officers, station commanders and directors, stations auxiliary commanders and directors, and vehicle managers). Simultaneously, PRPB must eliminate units and divisions which perform duplicative services already provided by other agencies within the Government (e.g., the Divers Unit, the Rescue Squad Division).

PRPB has made good progress on these goals, including successfully deploying and fully implementing a time and attendance system for its entire personnel as of June 2021, and updating to the latest software version of its incident reporting system (TIBURON/CAD).

However, PRPB is still behind on overall process improvements, as well as its goal of moving more sworn officers into the field. The Bureau still has ~2,400 sworn officers serving in administrative roles, with overtime expenses still above budgeted amounts. This is due to a lack of real back office operational improvement, struggles to hire civilian personnel, and overall attrition rates, as recruited cadets help maintain a steady level of sworn officers. The 2022 Fiscal Plan specifies that there should be 11,842 active sworn officers and 1,413 active civilians/back-office personnel in FY2022. Currently, there are 11,619 and 435, respectively.

The Bureau has reported no savings from back-office efficiencies. Further, as of October 2021, DPS reported that no officers in administrative roles had been replaced by civilian employees. This is not in line with the partial back-fill targets required in the 2022 Fiscal Plan. Efforts to implement two academies and recruit 255 cadets in FY2021-FY2022, along with a pending start date for an Academy with 130 cadets, have not solved current staffing shortages.

The Bureau has also struggled severely to recruit civilians for administrative roles, despite multiple attempts to recruit from civilian staff within government as well as external efforts. In FY2021, PRPB launched external recruitment for 130 of the 228 roles stated by the 2022 Fiscal Plan. Only 90 civilians have been recruited as of February 2021. No civilians have been recruited as of December 2021. The Department claims the limited hiring is due to non-competitive salaries for the civilian roles, additional requirements (such as thorough background checks), and academic/professional experience needed to qualify. DPS claims to have implemented multiple recruitment drives, both within the Government as well as externally, to recruit for accounting and IT back-office roles, which they consider extremely difficult to recruit. However, DPS has not

provided evidence to substantiate claims of non-competitive salaries or a plan for addressing any of these claimed obstacles.

Without focused action, PRPB will be unable to achieve the actions required to transform its operations and ensure it can move more sworn officers onto the streets to improve public safety on the Island.

Reducing overtime

PRPB spent approximately ~$50 million on overtime in FY2018, excluding the emergency overtime needs resulting from Hurricane María. This level of overtime is considerably higher than overtime for police forces in comparably sized U.S. mainland states. For instance, Connecticut, which has a similar population to Puerto Rico, spent only ~$28 million on a comparable basis in 2017. This gap persists despite the fact that Connecticut's total police spend per capita is ~$140 less than that of Puerto Rico.[289] Fiscal Plans have therefore required PRPB to reduce paid overtime by 60% by FY2023, in part through the operational efficiencies noted above, as well as by moving more sworn officers into the field and deploying more effective staffing models.

While PRPB reduced overtime spend in FY2019, FY2020 and FY2021 saw sharp increases driven by a shortage of field officers and failure to hire civilian staff. Projections for FY2022 overtime expenses maintain a continued increase from the previous two fiscal years. Additional systemic factors, such as paying current pay rates for previously incurred overtime, also contributed to the increase in overtime pay. Based on the latest information from the PRPB, the Police Bureau had already spent ~$29 million on overtime as of December 2021, almost the same as the annual spend for FY2020.

Tracking and managing overtime in Puerto Rico is further complicated by the manual nature of the process and a lack of centralized reporting. As a result, DPS does not have visibility into the quantity of overtime for a given period. To address this issue, a system to track overtime hours (SITAS) has been successfully implemented in the Police Bureau as of June 2021., After fully implementing the Kronos/SITAS time & attendance tool, the Bureau must properly track overtime and reduced yearly expenses to the $20 million savings required in the 2022 Fiscal Plan by outlining an implementation plan to reduce overtime expenses, as detailed in *Exhibit 118*.

The Bureau should continue to advance efforts to improve tracking and management of overtime to avoid unnecessary costs in future years. Furthermore, the SITAS/Kronos tool must be used to identify specific areas and timeframes with unusually high overtime expenses.

Driving other DPS agency personnel efficiencies

The other DPS bureaus[290] were required to consolidate back-office functions into the centralized DPS administrative agency starting in FY2019, with a goal of 50% reduction in transitory workers (excluding PRPB, PRFB, and EMS).

Measurable progress has been made at DPS in this consolidation. To date, approximately 470 employees[291] have transferred to DPS from across the six Bureaus, including 323 administrative roles from the Police Bureau. DPS has also established direct reporting lines and process integration across the remaining six bureaus for Procurement, Legal, Communications, Human Resources and Finance, and has migrated all Bureaus onto standardized system software for key back-office functions (e.g., accounting, finance, procurement). This should further ease the transition to centralized back-office operations beginning FY2022.

Although DPS now has a budget to fund centralized back-office roles, procedures and key performance indicators still need to be established. This is especially true for Recruitment and

289 Connecticut Office of the State Comptroller; census data 2014; FBI Crime Justice Information Services

290 Excluding 9-1-1

291 Including more than 200 positions that are currently vacant (204 as of December 2020)

Procurement, where multiple duplicative manual processes are performed in both areas. The Oversight Board has yet to receive a proper staffing and capacity analysis of current personnel, including detailed information of year-to-date procurement activity. DPS must provide monthly implementation reports, as per reporting requirements, regarding recruitment and procurement activity and progress for all Bureaus, including Capital Expenditure reports and vacant positions filled, as detailed in *Exhibit 118*.

The Special Investigations Bureau, the Emergency and Disaster Management Bureau, the Government Board of the 911 Service, the Police Bureau and the DPS Shared Service structure have adopted the time and attendance system (Kronos) for front office and administrative roles. DPS has confirmed plans for implementation of a time and attendance system for the remaining two agencies, the Emergency Medical Services Bureau and the Fire Bureau. DPS confirmed the implementation in the Emergency Medical Services Bureau should be completed by March 2022, while the Fire Bureau has a completion date of June 2022. The time and attendance tool needs to be established for all pending front and back-office personnel in order to enable better transparency in personnel time allocation and payroll expenditures. Time and attendance for the remaining personnel in all DPS Bureaus must be established by June 30, 2022, as detailed in *Exhibit 118*.

Optimizing all DPS agency non-personnel spending

PS must achieve procurement savings of 30% in FY2018 spend base. To do so, DPS should centralize and consolidate purchasing for all DPS agencies, leverage the negotiating power of the federal General Services Administration, utilize e-auctions, and launch competitive Requests for Proposal (RFPs) for outsourcing responsibilities. Even though procurement has been centralized within the DPS Shared Services structure, they will have to coordinate directly with GSA as the Government's central procurement agency for all purchases of the Bureaus and re-engineer their processes as the Shared Services structure has become less effective due to multiple manual processes. DPS must use FY2022 appropriations to address these issues, eliminating all current manual procedures by June 30, 2022, as detailed in *Exhibit 118*.

14.5.3 Required implementation actions

To achieve the 2022 Fiscal Plan expectations, the Department of Public Safety grouping must complete key operational efficiencies as outlined in *Exhibit 118*.

EXHIBIT 118: DEPARTMENT OF PUBLIC SAFETY REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Previous deadline	Status / New deadline
To be completed in FY2021	Outline end-state organization design (with proposed reporting structures) and operationalize consolidated back-office for shared services/functions across all DPS bureaus	September 2020	Completed
To be completed in FY2022	Launch external recruitment drive for civilians to fill target administrative role vacancies in DPS in FY2021	June 2022	Delayed
	Launch recruitment drives to fill specialist front-office roles across DPS agencies (e.g., Institute of Forensics, Police Cadets, Firefighters, EMS)	June 2022	On track
	Outline implementation plan to achieve overtime savings and launch initiatives to achieve rightsized staffing levels of sworn officers in field roles	June 2022	Delayed
	Scale up rollout of automated time and attendance system (Kronos) across all PRPB precincts and other DPS agencies (e.g., front-office personnel in Firefighters Corps)	June 2022	On track
	Outline potential initiatives to achieve other operational process improvements across all bureaus and provide monthly B2A and procurement reporting (e.g., digitization of incident reporting, consolidation of statistical reporting, streamlining of vehicle maintenance)	June 2022	Delayed
	Consolidate purchasing for all DPS agencies, eliminate all manual processes, and report procurement efficiency gains	June 2022	On track
To be completed in FY2024	Complete hiring of 900 civilians to administrative roles to enable transfer of all sworn officers to field roles	June 2024	Delayed

14.6 Department of Corrections and Rehabilitation (DCR)

The Department of Corrections grouping (*Exhibit 119*) consists of two agencies: the Department of Corrections (DCR), which manages the functions and policies of the Puerto Rican correctional system;[292] and the Correctional Health Department (CH), which provides healthcare to the incarcerated people under the jurisdiction of DCR. In FY2018, DCR reported a total employee headcount of 6,695, for an adult incarcerated population of 9,385 and juvenile population of 156. The agencies had a combined FY2018 budget of $419 million.

EXHIBIT 119: LIST OF AGENCIES IN FUTURE STATE DEPARTMENT OF CORRECTIONS AND REHABILITATION GROUPING

1. Department of Corrections and Rehabilitation
2. Correctional Health Department

Department of Corrections (DCR)

While operating an aging prison system dependent on outdated technology does necessitate a relatively high staffing level, the actual number of employees at DCR is substantially higher than comparable benchmarks. For example, DCR's FY2018 FTE-to-inmate ratio was 0.71, significantly higher than the 75th percentile for correctional staffing ratios in mainland U.S. states (0.54 FTEs per inmate).[293] As of March 2021, the FTE-to-inmate ratio is even higher – at 0.82 – largely due to reductions in the prisoner population not accompanied by reductions in staff.

In addition to its inmate population, DCR also served 7,122 community program participants in FY2018 (a population three-fourths the size of the total carceral population). In contrast,

292 This includes all penal institutions and rehabilitation facilities for men, women, and juveniles
293 NASBO, FBI, BJS databases

mainland U.S. states with FTE-to-inmate ratios near 0.54 serve nearly 3.6 times as many community program participants as the number of incarcerated adults in state prisons[294]. Additionally, while most U.S. state prison systems are near 100% utilization, as of March 2021 Puerto Rico facility utilization is 73%, which only considers habitable spaces.[295]

Correctional Health (CH)

To deliver healthcare services to incarcerated people, CH employs a hybrid management model comprising of in-house direct care providers and contracted healthcare delivery through third-party healthcare providers (e.g., Physicians, Mental health professionals). While most states in the U.S. have a direct-care model or use staff for administration and outsource healthcare, CH's model is relatively complex and unique, with the contracted vendor directly managing CH's roster staff. In FY2018, CH spent $8,499 per incarcerated person to provide healthcare services, while median spend across U.S. mainland states was $5,763.[296]

Juvenile Programs

In 1994, the United States filed a complaint against the Commonwealth of Puerto Rico and some named officials for subjecting juveniles confined in residential facilities to conditions that deprived them of their federal rights. The Commonwealth and the named Commonwealth officials agreed to settle the matter with the United States, culminating in the comprehensive 1997 Settlement Agreement. On December 12, 1997, the U.S. District Court for the District of Puerto Rico ("USDC") entered the Settlement Agreement as an Order. The USDC appointed a Monitor to ensure compliance with the provisions in the Settlement Agreement. In a report made for 2019, the Monitor concluded that the Department of Correction and Rehabilitation was non-compliant on three (3) provisions and partially compliant on twenty-one (21) of the remaining thirty (30) provisions in the court approved Settlement Agreement. The non and partial compliance provisions were related to inadequate staffing levels, which hinder the security of the juveniles, and to facility conditions. To address these issues, the Federal Monitor concluded in a report that an adequate staffing analysis and a separate budget for the Juvenile Program would be conducive towards good management.

In April 2020, the USDC ordered the establishment of a separate budget for the Juvenile Program in the amount of $22 million to ensure the Juvenile Program would have the necessary resources to operate and condition the juvenile facilities. Going forward, the Certified Budget will continue to segregate the Juvenile Program budget at a granular concept code level.

The Oversight Board has not seen any progress towards achieving operational efficiencies by DCR or CH. DCR's system-wide utilization of space for adult prisons continues to decline, coming in at 56% utilization as of February 2021. This decline has primarily been driven by government restrictions relating to COVID-19, as courts were closed for the first months of the pandemic and no pre-trial cases could be seen. This forced DCR to release some pre-trial incarcerated people, as the agency is not allowed to house them for more than 6 months if not convicted of a crime. As a result, the adult incarcerated population in DCR declined by 19% from June 2020 to February 2021, up from an average decline of 6% per year from 2014 and early 2020. However, total DCR employees have declined by just 4% per year since 2014.

Following the earthquakes, DCR closed a severely damaged facility in Ponce, and two other facilities were partially evacuated. This required two formerly-consolidated facilities to be reopened in order to temporarily house transferred inmates. As of 2021, DCR has stabilized its distribution of inmates to the proper facilities. However, a new challenge arose this year with the advent of COVID-19. Positive test results among incarcerated people and DCR employees has complicated operations, as agency safety protocols have necessitated the use of some facilities for quarantine. In light of these operational challenges, it is imperative for DCR to identify

294 Bureau of Justice Statistics, 2014
295 Bureau of Justice Statistics, 2014
296 Pew Trust "Prison Health Care: Costs and Quality" Report, 2017

inefficiencies currently embedded in the system and enhance Puerto Rico's correctional facilities, thereby making existing spaces more operationally useful and optimizing delivery of healthcare service to its inmates.

While in FY2021 DCR and CH were not held to any incremental measures, DCR and CH are expected to continue agency efficiencies in FY2022 to continue moving toward a more efficient staffing model and facility footprint. To enable progress, the Oversight Board made a one-time investment of $500,000 for a feasibility study to identify major areas in disrepair and in need of capital investment. Unfortunately, the completion date of this study was delayed due to COVID-19 from December 2020 to May 2021. As a result, the agency has paused any further consolidations. This will continue to impact potential savings, as DCR has yet to show procurement savings resulting from the large incarcerated population decline in FY2021.The Oversight Board strongly believes that DCR must focus more carefully on how it spends its resources so that it can more successfully deliver on its mission to protect inmate and staff safety.

The 2022 Fiscal Plan also includes explicit funding to enable DCR to measure and monitor federal consent decree requirements, including:

- **Corrections reform:** The 2022 Fiscal Plan ensures funding to achieve minimum confinement standards and inmate support at Puerto Rico Corrections facilities.
- **Juvenile corrections:** The U.S. District Court required a $22 million budget for the FY2021 Juvenile program following a joint recommendation from the Juvenile Program and the Federal Monitor. The 2022 Fiscal Plan includes funding to meet the requirements of the Court.
- **Correctional Health reform:** The Fiscal Plan provides funding to meet correctional health requirements based on the Carlos Morales Feliciano case.

The 2022 Fiscal Plan also provides, as mentioned in *Part IV*, investments in operational capacity to improve government service delivery. DCR correction officers' face an outdated compensation structure. The 2022 Fiscal Plan provides opportunities to participate in adjustments that bring pay closer to competitive levels, supporting efforts to foster a high performing-workforce (approximately $16.4 million).

The 2022 Fiscal Plan provides for a salary increase of 15% and would be implemented in a two-phase approach, subject to completion of certain milestones intended to develop areas of impact for DCR while enhancing accountability and transparency:

- **Phase 1 (baseline increase):** A 10% increase in the base line salary will be applicable to the current base salary scales of the correctional officers established at the beginning of their employment. Once the increase is applied, it will be applicable to every correctional officer who is recruited as a regular or transitory employee after June 30, 2022. In the case of current correctional officers, they will receive a 10% increase to their current salaries. This 10% increase will be applied July 1, 2022.
- **Phase 2 (time and attendance milestone):** The agency is currently implementing an integrated and automated time and attendance (T&A) reporting system to ensure that only active employees who are working get paid (see *Section 13.4.1*). T&A implementation is expected to provide savings, accountability, and transparency with regards to personnel time allocation and payroll expenditures. Implementation of the automated time and attendance system tied to the payroll system is expected to be completed by March 2022. A successful T&A implementation requires: a complete system integration go-live including a direct link to Hacienda's payroll system (RHUM), implementation of an updated employee manual, updated agency internal controls that support tracking of overtime expenditures and allow the agency to reduce overspending, and achievement of 90% or more attendance reporting by correctional officers through the automated T&A system during the pay cycles of June 15 and June 30, 2022 thru the use of biometric clocks to register presence at work. Upon successful completion of this milestone, the 2022 Fiscal Plan provides for an additional 5% increase. This

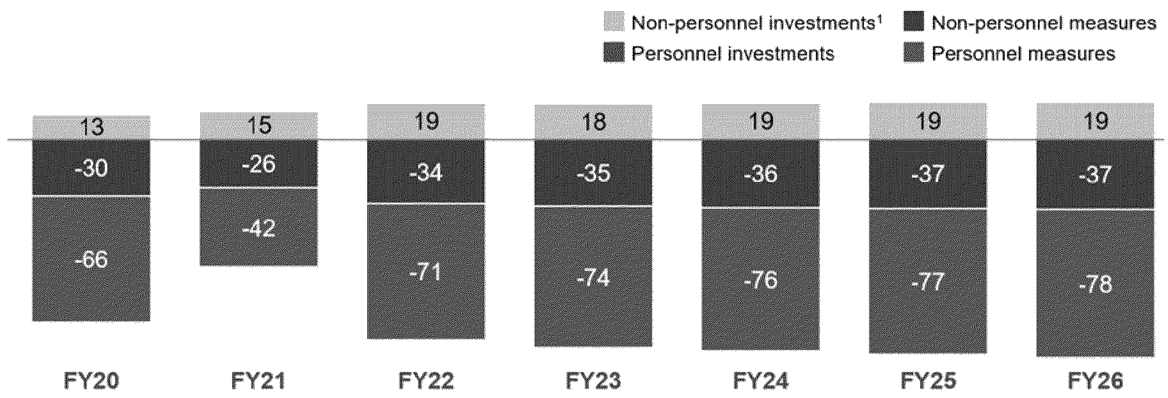
increase will be applicable to the base salary scales of the correctional officers established at the beginning of their employment. Once the increase is applied, it will be applicable to every correctional officer who is recruited as a regular or transitory employee after June 30, 2022. In the case of current correctional officers, they will receive an additional 5% increase to their salaries. This 5% increase will be effective July 1, 2022.

14.6.1 Overview of efficiency measures

For FY2021, the 2020 Fiscal Plan did not require additional savings for DCR and CH. This pause was meant to allow the agencies to implement urgent efficiency efforts. However, from FY2022 to FY2026, DCR must achieve the personnel and non-personnel savings outlined in *Exhibit 120*.

EXHIBIT 120: DEPARTMENT OF CORRECTIONS AND REHABILITATION INVESTMENTS AND MEASURES SUMMARY OF IMPACT

Recurring impact once investments and measures have been implemented, $M



1 The 2022 Fiscal Plan assumes full investment in FY2023 for correctional officers' salary increase; however, this is subject to milestone completion

Optimizing the FTEs-to-inmate ratio

Personnel savings must be captured by reducing DCR FTEs per inmate. The agency is required to meet target FTE-to-Inmate ratio of 0.63 by FY2023. This is a slight increase from the bottom-quartile U.S. states' benchmark of 0.54, which was the target ratio in past Fiscal Plans.[297] Considering the minimum staffing needs established by law for juvenile facilities and DCR's obligations towards community program participants (through socio-penal technicians), DCR must achieve headcount reduction targets by rightsizing administrative staff roles and redirecting correctional officers currently working in administrative or civilian roles. Despite the requirements of the 2020 Certified Fiscal Plan on this issue, the FTE ratio has increased from 0.67 in June 2020 to 0.82 as of February 2021 reporting; as the inmate population continues to decline due to COVID-19 implications.

DCR must achieve these personnel reductions by employing back-office process efficiencies (see *Exhibit 121* below). These include building internal capacity, increasing access to information technology, establishing clear measurement tools for identifying progress in implementation and quality of services rendered, identifying and training staff to assume leadership positions in Finance and Operations, having increased control over its budget, and strengthening quality assurance systems. The Oversight Board believes these changes are necessary to establish better

297 Census data, 2014; Bureau of Justice Statistics, 2014

administration of services provided to both DCR employees and to the adult and juvenile incarcerated populations.

Consolidating adult facilities

To bring the system in line with the requirements of the population and to increase utilization across all prison facilities, DCR is required to consolidate its footprint to reach an overall system utilization of 93% (see *Exhibit 121*). This must be achieved while maintaining appropriate separation of different inmate risk profiles and populations, including men, women, and juveniles, as required.

DCR's facilities are technologically outdated with rapidly deteriorating infrastructure. Repairs are needed for plumbing, electric, roof sealings and gate repairs, among other concerns. In FY2021 DCR was required to conduct a facility footprint and consolidation assessment study with the objectives of: (1) diagnosing the current state of infrastructure across its facilities; (2) identifying capex investment needs; and (3) identifying opportunities for additional facility consolidation. This assessment was meant to serve as a guiding tool for DCR to implement the consolidation of facilities following an overarching and comprehensive approach. Unfortunately, due to the pandemic, the study was delayed from December 2020 with results being provided at the end of FY2021. The delays were attributed to a long hiring process and the vendor not being able to travel to the Island due to COVID-19 concerns.

DCR reported consolidating five prisons before FY2018 in addition to closing four prison facilities, including two juvenile facilities – a departure from 2020 Fiscal Plan expectations. However, DCR has continued to operate those facilities, at least in part, using them as storage, administrative offices, or program offices (e.g., community program, special arrests). As a result, no savings from the closure of these facilities have been achieved.

Meanwhile, despite the reported consolidation of facilities, system-wide utilization rates for facilities that house inmates continue to be low. DCR is now operating a total of 33 facilities with a total capacity of 12,643. With an incarcerated population of 7,125, this implies a utilization rate of just 56%. This indicates potential for DCR to further consolidate additional facilities.

Almost 23% of DCR's total capacity is reportedly 'uninhabitable'. To enable improvement in habitability of this excess space, the Oversight Board provided DCR a one-time capex allocation of $19.2 million in FY2020. However, the agency did not utilize these funds to improve habitability of spaces, instead spending the funds on regular roof repairs, perimeter gates repairs, infrastructure repairs and purchase/installation of power generators. Given the lower inmate population, DCR has consistently pointed to the uninhabitable spaces in large prisons. Making these spaces habitable is key to the further consolidation of DCR facilities.[298]

Completion of the feasibility study will provide additional clarity and further direction as to which facilities are ideal for additional consolidation, either by investing in repairs to uninhabitable spaces and or by making the general repairs needed to existing facilities.

The vendor was expected to provide the final recommendation at the end of FY2021, agency must analyze and establish their plan to implement the results of the study. Agency must prioritize implementing the consolidation of its footprint and operational consolidation must still be realized for the agency to achieve savings. DCR must cease operations in facilities not currently used to house inmates and, accordingly, wind down maintenance and operating costs. At a minimum, DCR should shut off utilities (electricity, water) at these facilities, and identify opportunities to enable transfer of ownership wherever possible. Agency continues to use closed facilities for other needs, such as storage, as well as reopening previously closed facilities to temporarily move inmates due to the January 2020 earthquakes and to accommodate special needs created by the COVID-19 pandemic. Capital improvements for facility modernization (e.g.,

[298] As of January 2021 data, 11 facilities with the lowest utilization rates had 925 inmates who could be transferred to the remaining facilities to increase system wide utilization rates to 91%

electronic monitoring through installation of security cameras, automated gates, etc.) should also be expected to reduce dependence on front-line personnel and enable personnel efficiencies.

Overall, the 2022 Fiscal Plan expects 40% of non-personnel operating expenditures to be captured by FY2025 for each closed facility by consolidating the physical footprint, winding down contracts, and other levers. The remaining operating expenditures should be transferred to support population increases in the remaining facilities.

Reducing procurement spend

DCR FY2018 total addressable spent totaled $52.5 million on procurement. It was determined that these costs could be reduced through leveraging the negotiating power of the Federal General Services Administration, utilizing e-auctions, launching competitive Requests for Proposal (RFPs), centralizing purchasing to the greatest extent possible, and outsourcing/contracting responsibilities.

Procurement efficiency measures included a $5.6 million HMO contract savings, and $5.1 million in procurement efficiencies. In FY2019 and FY2020, DCR reported ~$4 million in procurement savings through renegotiating its HMO contract for the delivery of correctional health services and closing administrative offices and the juvenile facility at Humacao. However, in that same period, DCR has not met the additional annual saving goal of $5.1 million in procurement efficiencies.

In FY2021, which saw a decline in the incarcerated population of 9%, DCR reported savings only on food costs, while other contracted services either maintained or increased spend. Furthermore, this savings in food costs is expected to be reduced or eliminated when the agency changes its food provider before FY2022. This change will result in paying more per plate, with added services such as management of commissary stores, laundry and equipment replacement for the managed areas without proportional changes in those in-house costs.

For FY2022, DCR is required to continue procurement savings as the inmate population declines. Possible correctional facility consolidations in FY2022 will drive savings opportunities for the agency as long as they implement feasibility study recommendations to continue to eliminate its facility footprint

Improving management of prisoner healthcare

In FY2018, the Government spent $8,499 per inmate for correctional healthcare. The 2022 Fiscal Plan required the Government to bring per-inmate spend in line with the 50th percentile of U.S. states and unlock savings by renegotiating existing contracts, launching competitive RFPs for key contracts with terms more in-line with mainland spending practices, reconsidering level of service due to the currently declining prison population, and strategically evaluating insourcing options. As of FY2021 CH has implemented a generic medicine program across all facilities, with the goal of reducing medicine expenditure.

Furthermore, CH is expected to achieve personnel efficiencies of $8.2 million as per FY2018 baseline. In order to achieve savings, agency needs to reevaluate its staffing policies for administrative and support roles (such as paraprofessionals, pharmacists, etc.), and implement back-office process efficiencies and/or centralization/digitization of common tasks across facilities (see *Exhibit 121* below).

CH reported achieving procurement savings in FY2019 through efficient inventory management, renegotiating procurement contracts with rebates, implementing generic drug buying policy, and enacting new medication formulary and clinical management.[299] The Oversight Board provided one-time additional funding of $8 million to cover projected overspend. However, the agency continues to struggle to implement the efficiency savings required by the 2020 Fiscal Plan. Even

299 As reported by Physicians HMO – correctional health administration and management vendor.

as DCR has achieved procurement savings through renegotiating the correctional health HMO contract and food services contract, there are still opportunities to evaluate potential savings on other contracts in Correctional Health, including those for sub-contractors. CH is required to achieve savings of $4.6 million in FY2022 (see *Exhibit 121*).[300]

14.6.2 Required implementation actions.

To achieve the 2022 Fiscal Plan requirements, the Department of Corrections and Rehabilitation grouping must complete key operational efficiencies as outlined in *Exhibit 121*.

EXHIBIT 121: DEPARTMENT OF CORRECTIONS REQUIRED IMPLEMENTATION ACTIONS

Areas of focus	Required implementation action	Deadline	Status	New Deadline
Consolidate agencies	• Provide outline for facility footprint and consolidations assessment study	July 2020	Completed	N/A
	• Publish facility footprint and consolidation assessment study listing facilities to be considered for consolidation or investment required to improve habitability of spaces	December 2020	Completed	May 2021
	• Implement plan to consolidate additional facilities and improve habitability of spaces to improve system level utilization of existing spaces and provide supporting documentation (e.g., RFP documents submitted to proceed with consolidation)	March 2021	Delayed	December 2022
Rightsizing personnel	• Implement back-office process redesign (e.g., digitization of record keeping) to achieve personnel efficiencies and reach FY2022 headcount targets	July 2020	Delayed	June 2022
	• Outline initiatives to reduce headcount in order to achieve target headcount in FY2022 and onward	March 2021	Delayed	December 2022
Optimize procurement spend	• Provide facility-level data on opex spend, list of procurement contracts and outline initiatives to achieve procurement efficiencies in FY2022	September 2020	Completed	N/A
Redesign correctional health program	• Provide updated roster of Correctional Health employees (direct, contracted) outlining key roles and responsibilities to validate current staffing levels	July 2020	Completed	N/A
	• Provide assessment of healthcare spend per inmate and identify initiatives to generate personnel or opex savings	December 2020	Completed	N/A

14.7 Department of Economic Development and Commerce (DDEC)

The DDEC includes a consortium of agencies critical to incentivize and support the revitalization and transformation of Puerto Rico's economy. To promote growth, DDEC must enable high-impact projects, energize existing industries, and facilitate the attraction of off-Island investments to strengthen and modernize the Island's economy. Additionally, the Department manages a variety of youth and workforce development programs meant to foster qualities (e.g., entrepreneurship, job-preparedness) crucial to a growing economy. Finally, DDEC and its component agencies are charged with the implementation of structural reforms (e.g., overhauling permitting) to transform Puerto Rico into a more competitive business, tourist, and investment destination.

To ensure streamlined economic development and realize efficiencies, seven agencies have been slated for full front- and back-office consolidation into DDEC, with three more agencies to be assigned to the Department. Assigned agencies will consolidate their back offices into DDEC but retain separate front offices. The agencies to be consolidated are as shown below (*Exhibit 122*).

300 Contract with Carolina Catering was established prior to FY2020. However, ongoing legal proceedings with Trinity catering (prior vendor) has delayed implementation of the new contract.

EXHIBIT 122: LIST OF AGENCIES IN FUTURE STATE DEPARTMENT OF ECONOMIC DEVELOPMENT GROUPING

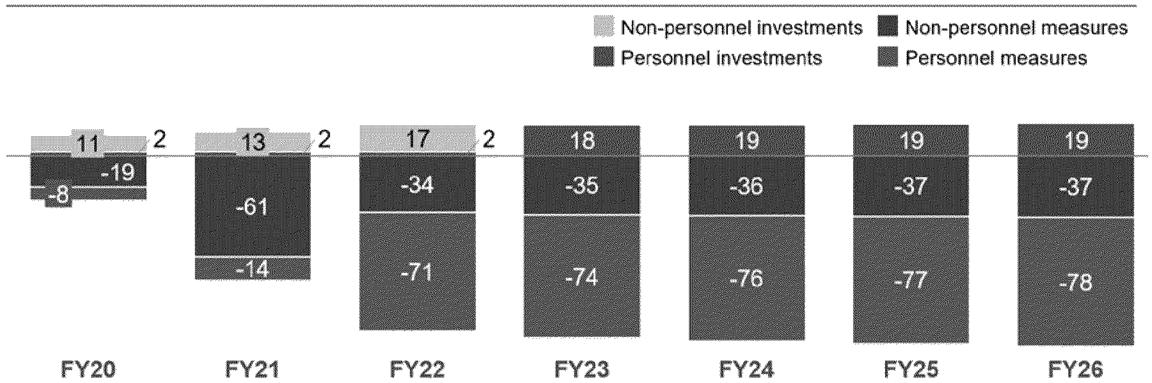
1 Department of Economic Development and Commerce (DDEC)	6 Commonwealth of Puerto Rico Regional Center Corporation
2 Puerto Rico Industrial Development Company	7 Local Redevelopment Authority for Roosevelt Roads
3 Puerto Rico Trade and Export Company	8 Permits Management Office
4 Office of Industrial Tax Exemption	9 Puerto Rico Tourism Company
5 State Office of Energy Policy	10 Planning Board

14.7.1 Overview of efficiency measures

From FY2022 to FY2026, DDEC must achieve the savings outlined in *Exhibit 123*.

EXHIBIT 123: DEPARTMENT OF ECONOMIC DEVELOPMENT INVESTMENTS AND MEASURES SUMMARY OF IMPACT

Recurring impact once investments and measures have been implemented[1], $M



1 Excluding savings which would be attributable to PRIDCO

Consolidating operations and rightsizing personnel

The 2022 Fiscal Plan requires DDEC to consolidate 10 entities, which is expected to yield significant personnel and non-personnel savings. This consolidation requires DDEC to clearly define each agency's responsibilities, which will limit costs and prevent overlapping duties. Each agency's responsibilities must also be distinguished from those of Discover Puerto Rico (DPR), currently responsible for attracting off-Island tourists, groups, and conventions, and Invest Puerto Rico (IPR), which is charged with attracting offshore investments from businesses.

The 2022 Fiscal Plan requires DDEC to realize front and back-office personnel efficiencies as the Department consolidates other agencies. Specifically, DDEC should reduce front-line personnel by 20% by FY2022 to produce a streamlined and efficient organization. In line with the findings of a Government analysis that identified a redundancy in service of back-office personnel across the Department, DDEC should also consolidate back-office operations to reduce back-office

headcount by 41% by FY2022.[301] Further, DDEC should establish a set of key performance indicators, targets, and milestones for each of its subsidiaries to measure the performance of its subsidiaries and partners and act to address issues.

To date, DDEC has made substantial progress by operationally consolidating 70% of agencies. The seven agencies have moved to a centralized accounting and payroll systems. Pending entities includes the Puerto Rico Tourism Company (PRTC), Roosevelt Roads (RR) and Planning Board (PB).

Although DDEC has integrated seven of ten agencies and merged agencies' back-offices into one, targets are at-risk due to PB, PRTC, and RR. DDEC has struggled to integrate PB's back-office due to the lack of cooperation from the agency. However, in October 2020, Planning Board identified 36 employees that can be transferred to DDEC without affecting the agency's operations. This list was given to DDEC, but DDEC did not proceed with the transfer of these employees. As a result, PB's management sent an updated list in March 2021, with only '7 identified employees. Planning Board's consolidation into DDEC must be finalized in FY2022 (see *Exhibit 124*).

At the beginning of FY2021, PRTC transferred approximately 157 employees to the Gaming Commission. Currently, the agency has 209 employees, of which 46 are front-office (22%), 136 are back-office (65%), and 27 are working in another agency (13%). In addition to the consolidation of PRTC as a program under DDEC, efforts to reduce back-office personnel in the agency are pivotal for the operational efficiency of PRTC.

The required capacity analysis for the future state of DDEC explaining the various offices and the required personnel remains incomplete. The 2021 Fiscal Plan required the agency to commence the project as soon as possible and have it finalized by September 2021 (see *Exhibit 124*).

Further, DDEC has so far reduced headcount only through Voluntary Transition Programs (VTP) or natural attrition. To achieve personnel reductions in a manner that does not compromise short-term or long-term operational capabilities, DDEC will need to analyze its personnel base and develop a targeted plan for what roles could be rationalized (see *Exhibit 124*).

Achieving non-personnel efficiencies

DDEC must reduce non-personnel spend by 30% by FY2022. DDEC has yet to initiate its procurement reform, which should aim to generate savings through contract renegotiations. Going forward, DDEC must focus on reviewing all its procurement contracts and identifying top contenders for contract consolidation or renegotiation.

In addition to reducing procurement spend, DDEC was required to consolidate its physical footprint to accommodate all programmatic areas and back-office personnel, and manage all tax exemptions, grants, and credits under one centralized Department. Previously it was intended that employees should be consolidated in two main buildings, but current management decided to consolidate all personnel in PRIDCO's Hato Rey building located in Roosevelt Avenue. To date, DDEC consolidated all of its employees, with the exception of Planning Board and Tourism, into the Hato Rey building.

14.7.2 Required implementation actions

DDEC has a set of required implementation actions which will dictate the operational efficiency of the grouping moving forward. In FY2022, DDEC must achieve the following:

- Finalize the physical and operational consolidation of the agencies (including PRTC and Planning Board)

301 DDEC analysis, 2018

- Conduct an operational needs assessment to identify excess resources and reduce superfluous front- and back-office personnel
- Start and finalize the procurement contract renegotiations
- Publish the quarterly reports

During FY2021, DDEC was given an implementation milestone, to publish quarterly reports on the agency's website detailing all economic incentive donation/subsidy amounts given to private corporations. If they achieved the milestone, up to $1.8 million would be provided per quarter for their operational budget. DDEC has published the quarterly reports, thus receiving the incentives for the first two quarters of FY2021. For FY2022, the implementation milestone will be applied as in FY2021 and it is expected the agency will improve the quarterly reporting to expand on the description of the economic activity, include return on investment (ROI), NAICS industry code and number of employees (see *Exhibit 124*).

The 2021 Fiscal Plan included an implementation milestone which required DDEC to publish quarterly reports on the agency's website detailing all economic incentive donation/subsidy amounts given to private entities. If they achieved said milestone, DDEC would receive up to $1.8 million incentives per quarter to be used for their operational budget. In FY2021, the Oversight Board approved the incentives however noted, return on investment (ROI) calculation was not included in the report for all incentives granted. During FY2022, DDEC committed to update the report including ROI for all incentives granted. DDEC anticipates publishing the updated report by January 29, 2022. Upon submission, the Oversight Board will review and determine if DDEC has compiled with all requirements to receive the respective milestone incentives.

To achieve the 2022 Fiscal Plan requirements, the DDEC must complete key operational efficiencies as outlined in *Exhibit 124*.

EXHIBIT 124: DDEC REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2022	• Publish quarterly reports in the agency's website detailing all economic incentive donation/subsidy amounts given to private corporations	Quarterly • Q1 – October 2021 • Q2 – January 2022 • Q3 – April 2022 • Q4 – July 2022	• On track
	• Identify which procurement contracts have been renegotiated or are pending renegotiation or elimination (across all consolidated and ascribed DDEC entities) to the Oversight Board	• June 2020	• Delayed – September 2021
	• Conduct operational needs assessment across all consolidated and ascribed entities (including PRTC and JP) to identify where to reduce front- and back-office personnel without inhibiting the performance of DDEC agencies	• September 2020	• Delayed – September 2021
	• Finalize the consolidation of the physical footprint of all consolidated DDEC agencies	• September 2020	• Completed
	• Reduce excess front- and back-office headcount across all DDEC agencies (excluding PRTC and JP)	• March 2021	• Delayed – March 2022
	• Execute the administrative actions (e.g. systems integration) required to consolidate PRTC and ascribe JP	• March 2021	• Delayed – March 2022
	• Finalize procurement contract renegotiations	• June 2021	• Delayed – March 2022
	• Consolidate PB's key back-office personnel into DDEC's back office	• June 2021	• Delayed – March 2022
	• Reduce excess front- and back-office headcount from PRTC and back-office personnel from JP in line with September 2021 operational needs assessment	• June 2021	• Delayed – June 2022

14.8 Puerto Rico Innovation and Technology Services (PRITS)

14.8.1 Context and current technology landscape in the Government of Puerto Rico

The Puerto Rico Innovation and Technology Services (PRITS) was created to establish an administrative structure responsible for technology strategy across the Government of Puerto Rico.

The 2017 Executive Order that established PRITS gave it the following responsibilities, among others:

- Integration of technology into government management
- Promotion of public, private, and academic projects in the technological field
- Creation of a digital platform to integrate the different components and government entities
- Generation of a system of tax payment and bank transfers under Hacienda
- Development of a public accountability system

In March 2019, an additional Executive Order reinforced the additional leadership roles and responsibilities of PRITS, including transferring the responsibilities of the Office of the Chief Information Officer (CIO) to PRITS and establishing the role of the Chief Information and Innovation Officer (CIIO). The CIIO is in charge of integrating and streamlining the Government's information and communication technology processes.

In July 2019, the Government enacted Act 75-2019, making PRITS the office of the Executive Branch responsible for implementing, developing, and coordinating the Government's public policy on innovation, and information technology ("IT"). However, PRITS's first few years were marked by delays in the development and adoption of key technological reforms, as well as insufficient oversight of the use of technological resources.

To better enable PRITS to carry out its responsibilities, the Oversight Board approved its FY2021 budget of $70 million. These funds included a $2.5 million payroll increase for new skilled personnel and over $30 million in additional operational expenses for investments in cybersecurity, centralized data centers, strategy and operations, cloud services, and the implementation of centralized telecommunication services.

During FY2021, PRITS made some progress in improving transparency and accountability of IT spend across Government. For example, the Proposal Evaluation Guidelines ("PEG") were implemented to standardize criteria used by PRITS to evaluate innovation and technology proposals submitted by the Government agencies. Additionally, PRITS has improved oversight by establishing better communication with agency information officers and developing an inventory of available technology infrastructure and applications used by the government agencies.

In addition to these accomplishments, however, PRITS has room to make more effective use of its technology resources and available funding. First, PRITS still has room for improvement in integrating its IT infrastructure (e.g., on-premises data centers and cloud storage) and services (e.g., applications) across the Government. During FY2021, PRITS was granted $10 million for centralized data center strategy and operations, cloud services and new equipment. Such funding should have been utilized by PRITS for investments in centralized IT infrastructure and the migration of existing government services into such centralized IT infrastructure. These efforts would significantly reduce the need for infrastructure and cloud services at the agency level, which, in many instances, are being underutilized. The agency has been able to provide a preliminary strategic detailed plan for the data center consolidation, which should result in potential benefits such as reducing operational costs, meeting energy efficiency standards, limit capital expenditures, increase utilization of equipment, and prevent security risks, among others.

Also, PRITS has made progress with the integration of services and applications identified in its inventory by consolidating the cloud service contract to include some government agencies. PRITS must continue to make progress in the implementation of centralized telecommunication services and cybersecurity strategy and operations.

Second, although PRITS was granted $3.3 million in FY2021 for full staffing (including specialized resources), which continued in FY2022, the agency suffered significant delays in formalizing a Government-approved organizational structure. In fairness, these delays coincided with other bureaucratic obstacles in the recruitment process, such as outdated job classifications not reflective of agency staffing needs. PRITS was able to recruit key positions such as Chief Information Security Officer (CISO), and Chief Technology Officer (CTO) and continue its efforts to recruit personnel with expertise in solution development, operations, and technology architecture, that resulted in a ~$1.7 million Payroll underspend in FY'021 and ultimately hindered the agency's ability to meet some implementation deadlines.

The Government and PRITS should continue to focus on the creation of centralized teams with the specialized skills needed to accelerate infrastructure consolidation and improve the Government's ability to deliver new technology solutions. Agencies continue to rely too heavily on external vendors rather than building the capabilities of PRITS to lead and manage these initiatives. Similarly, there continues to be unclear accountability for technologies developed at the agency level. As a result, pieces of infrastructure are developed and managed separately, with dispersed accountability, creating a complex web of oversight, incremental cost, and ineffective systems. Additionally, while it is apparent that certain agencies are taking advantage of the centralized cloud infrastructure by moving additional services into the cloud, the savings and existing budgets associated with the operational costs of on-premises data centers and other related expenses are not being transferred to PRITS.

As provided by the Act 75 of 2019, the Governor has the authority to transfer to PRITS personnel, funds, budgets, documents, records, equipment, materials, and files of any other IT operational area of any agency, for use in the purposes and purposes of the Act. The Government and PRITS should continue to work together to ensure that PRITS has the necessary resources to fulfill its mandate of centralizing and standardizing the management of the information technologies and innovation areas of government.

14.8.2 Importance of digital modernization

It is critical that the Government make effective use of its technology resources. The Government, via PRITS, must continue to improve its capabilities in digital delivery to achieve critical benefits, including:

- **Reducing expenses and improving reliability through data-center consolidation.** Since 2016, the Federal Government has closed 210 tiered data centers, and over 3,000 non-tiered data centers. To realize the full benefit of this action, PRITS must implement best practices at the state and federal level. These should include increasing use of virtualization, freezing new data centers unless compelling justification exists, and exploring the use of cross-agency shared services.
- **Rationalizing the application portfolio to ensure that Government-wide resources are directed to the highest priority initiatives.** Modern governments face substantially higher demand for technology services than can be fulfilled. In a resource-constrained environment, disciplined application portfolio management can ensure alignment between IT spend and government priorities. Accordingly, PRITS must implement a Government-wide application rationalization effort which prioritizes proven solutions. These are likely to include creating a portfolio management governance approach; establishing a baseline inventory of applications; assessing the business value and total cost of ownership of the applications; scoring/ranking applications; and creating a forward-looking plan to migrate the portfolio to higher-value uses.

- **Enhancing cybersecurity to prevent costly data breaches.** As cyber threats continue to proliferate, government agencies globally have adopted cybersecurity-specific risk management practices. PRITS must improve the Government's cyber defenses by developing a government-wide view of "crown jewels" in the technology ecosystem that must be protected, providing policy guidance to agencies setting forth evolving standards and requirements, and coordinating delivery of specialized expertise across government where the need arises.
- **Improving transparency and accountability of IT spend across government and focusing on value for IT dollar spending.** PRITS will realize its greatest impact when stakeholders are given a clear line of sight into where IT spending is going, and what value is being delivered. Encouraging agencies spending government resources to provide this transparency should therefore be a core focus for PRITS, rather than pursuing a centralized effort that treats transparency as incremental to existing IT spending.

14.8.3 Required implementation actions

In line with the four key initiatives stated above, PRITS must achieve the following objectives and milestones *(Exhibit 125)*.

EXHIBIT 125: PUERTO RICO INNOVATION AND TECHNOLOGY SERVICES REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2021	Establish process and protocols for IT contract review[1] of government agencies to create greater transparency on IT spend and needs of infrastructure or cloud services	September 2020	Completed
To be completed in FY2022	Develop strategy to consolidate Cloud services and on premise data-centers with a detailed migration plan to drive consolidation of infrastructure during FY2021	December 2020	Completed
	Provide a structured and exhaustive portfolio of digital initiatives, prioritizing by impact, feasibility and relevance for Central Government Agencies	December 2020	Completed
	Ensure critical cybersecurity infrastructure, processes and control systems are set in place by PRITS and adopted by government agencies to minimize risks through clearly defined governance structures	December 2020	Completed
	Create a protocol for PRITS to review all technology-related budget requests as part of the FY2022 Budget cycle	December 2020	Delayed – January 2022
	Develop plan to consolidate current personnel spending and establish cross-functional teams by identifying personnel in government agencies with specialized technology skills to be centralized	June 2021	Delayed – October 2022

1 Does not apply for contracts that require a formal RFP process

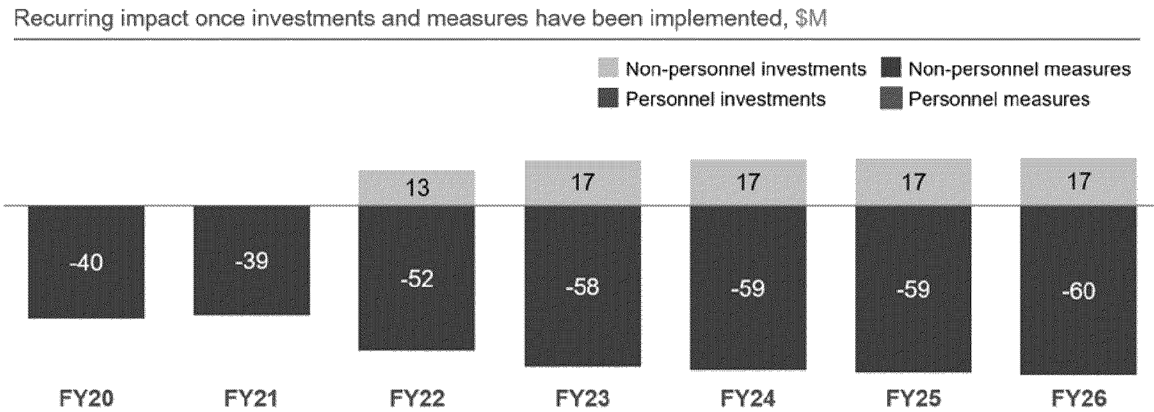
14.9 Legislative Assembly

As of FY2017, the size of the Puerto Rican Legislative Assembly was significantly larger than comparable legislatures in U.S. mainland states, even when accounting for the demands of full-time legislatures and excluding the money that the Legislature spends on supporting non-profit organizations. Puerto Rico spent $34.16 per resident on addressable legislature expenditure, while the weighted average expenditure per capita for comparable "full-time" U.S. mainland legislatures (e.g., in Michigan, California, New York, and Pennsylvania) was $13.11. The variance persists even when legislative expenditure is considered as a percentage of GDP. As such, reductions to the size and funding of the Legislature were necessary to bring it in line with benchmarks and optimize government funds.

Contingent on obtaining and maintaining adequate Medicaid funding, the 2022 Fiscal Plan increases the Legislative Assembly's budget by $15 million beginning FY2023 with a pro rata amount in FY2022. This is to bring reductions that had been made to Legislative Assembly's budget to be more in line with those made to the budgets of other Executive Branch agencies. Also, an additional allocation of $3 million annually is available for the creation of a non-partisan office within the Legislative Assembly to produce fiscal analysis and scoring of legislative measures, similar to the function of the Congressional Budget Office in Washington, DC. This office will serve both the House and Senate.

Measures shown in *Exhibit 126* will be reduced by approximately $8 million in FY2022 and $15 million beginning FY2023 because of the incremental funding provided as mentioned above.

EXHIBIT 126: LEGISLATIVE ASSEMBLY INVESTMENTS AND MEASURES SUMMARY OF IMPACT



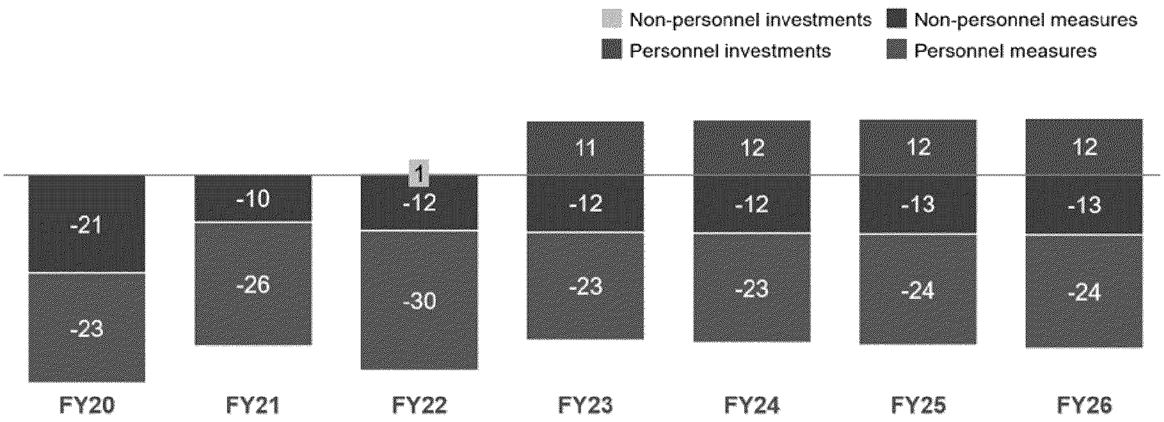
14.10 General Court of Justice

The General Court of Justice, although to a lesser extent, was similarly over U.S. mainland cost benchmarks in FY2018 (by ~35% when compared to the median cost of mainland full-time Judiciaries). As such, the 2022 Fiscal Plan continues to require that the Court maintains agency efficiency measures equivalent to a 10% reduction in their annual budget, amount that the Court cut in his FY2018 budget. Therefore, it was not required to achieve additional savings in FY2021 or in future years.

The 2022 Fiscal Plan provides for $11 million in incremental funding, starting in FY2023 to cover salary increases for all employees of the General Courts of Justice (equivalent to a $200 monthly increase, which is on average a 7% increase, to all employees of the judicial branch except judges), irrespective of any specific position and including, but not limited to, bailiffs/marshals, secretaries, among others.

EXHIBIT 127: GENERAL COURT OF JUSTICE INVESTMENTS AND MEASURES SUMMARY OF IMPACT

Recurring impact once investments and measures have been implemented, $M



14.11 State Elections Commission

The State Elections Commission (SEC or "CEE" by its Spanish acronym) is charged with administering elections for the Commonwealth. Given this important role, every effort must be made to ensure that SEC can thoroughly execute its mandate to promote and enable voter rights for the people of Puerto Rico in the most efficient, simplest, and least costly ways. The Oversight Board is deeply committed to supporting elections that are conducted in a fair, free, and open manner. Consistent with this objective, the Oversight Board also requires the SEC to adapt its processes to bring down the Island's cost of election administration closer to that of mainland states.

On June 20, 2020, after the certification of the 2020 Fiscal Plan, the Government of Puerto Rico enacted Act 58-2020, restructuring SEC's operation' in alignment with the Oversight Board's January 201' recommendation. Act 58 modernizes SEC's operations by providing for the implementation of an Electronic Poll Book, the elimination of separate voter ID cards, the expansion of mail-in Early and Absentee voting, and the eventual elimination of "Juntas de Inscripción Permanentes" (JIPS), which should be replaced by more consolidated State Centers for Integrated Voter Services.

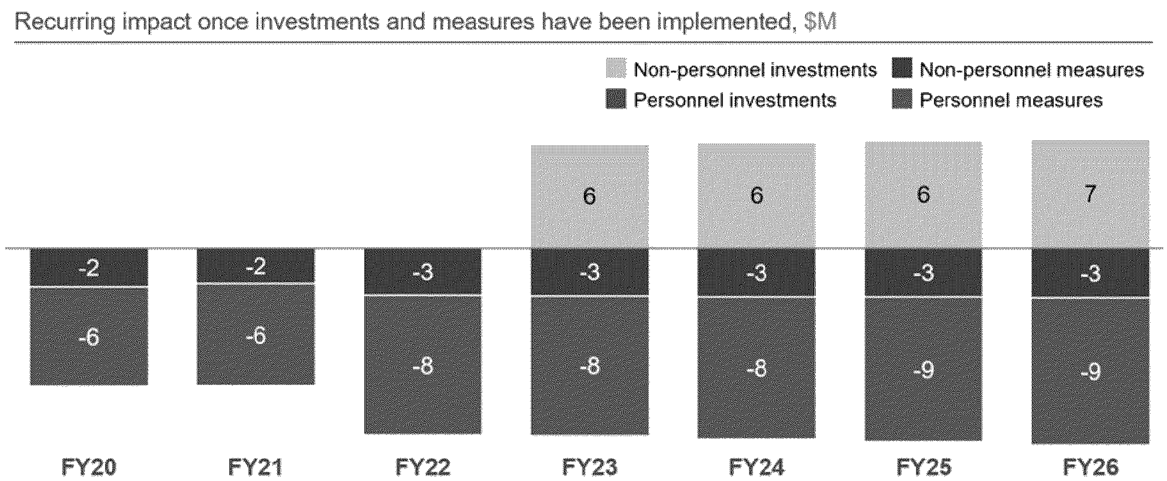
To enable the SEC to seamlessly administer expected FY2021 electoral activities, the Oversight Board approved extending one-time funding of $7 million in FY2020 for the presidential and local primaries, both of which were rescheduled to FY2021 due to the COVID19 pandemic. The 2020 Fiscal Plan also provided $9 million for the FY2021 general elections and the same amount every four years thereafter. Following both the 2020 Fiscal Plan and budget certifications, the Oversight Board addressed SEC's late requests for further resources by allocating an additional $2.3 million for primaries, $11.2 million for the general elections, $3.5 million for a referendum and $0.8 million in federal fund matching for the agency to execute its mission of ensuring the democratic process. Unfortunately, SEC experienced significant confusion and delays in the vote counting process, later claiming that it was unprepared to manage the significant increase in mail-in votes. Finally, SEC ended up returning ~$3 million of its allocated funds after the election, highlighting administrative failures within the agency.

The 2022 Fiscal Plan provides an incremental funding of $6.2 million starting on FY2023 to maintain the electoral equality, equal participation and representation of the five (5) political parties across all offices as required by Act 58-2020, such as Inscription Offices (550), Office of the Commissioner's (50), and Secretaries (41). Given the escalation of funding over the past two

years and the continued struggles of the SEC to meet its mandate, the agency needs to rethink its operations to conduct a fairer, more transparent, and efficient electoral process that assures the rights of all constituents of the Commonwealth of Puerto Rico. Moreover, SEC should fully capitalize on the decreased workload of this upcoming non-election year to enact real progress on agency efficiencies as well as aligning their resources and employees to comply with the requirements of Act 58-2020, as amended.

Payroll measures in *Exhibit 128* are reduced by the incremental payroll funding of $6.2 million starting on FY2023 to comply with the positions required by Act 58-2020 to ensure electoral balance.

EXHIBIT 128: STATE ELECTIONS COMMISSION INVESTMENTS AND MEASURES SUMMARY OF IMPACT



14.12 Agencies that promote public integrity and transparency

There is wide agreement that driving a successful fiscal transformation within the Government of Puerto Rico will require public integrity and transparency at every turn. Within the Government, several agencies are dedicated to maintaining this oversight and fiscal responsibility: namely, the Office of the Comptroller, and the Office of Government Ethics, among others. In line with the priorities of the Governor, the functioning of these agencies is critical to achieving the goals and ensuring the long-term sustainability of the 2022 Fiscal Plan. Accordingly, the budgets for the Office of the Comptroller and the Office of Government Ethics will not be affected by agency-specific rightsizing measures, but must still achieve Christmas bonus reduction, uniform healthcare, and utilities savings.

To ensure that these integrity and oversight agencies have the resources they need to perform their statutory and constitutional functions, the 2022 Fiscal Plan provides incremental funding of $6 million for salary adjustments and new positions in critical areas. $2.5 million annually is being made available for a salary adjustment applicable to current employees at these agencies (representing a 5% salary increase) commencing in FY2023. In addition, the 2022 Fiscal Plan provides $3.5 million for new positions starting in FY2023. New positions will be subject to achieving the milestone of agency implementation of new employee evaluation system and recruitment platform that will be developed through the CSR rollout. The oversight entities that are part of this investment are: Institute of Statistics, Office of the Comptroller of Puerto Rico, Office of the Electoral, Office of Government Ethics, Office of the Inspector General and Special Independent Prosecutor's Panel.

The 2022 Fiscal Plan also provides $5.3 million in incremental General Funding starting in FY2023 for the Office of the Inspector General (OIG). The agency has faced challenges invoicing other agencies and public corporations for the costs related to the transfer of internal auditors into the OIG that resulted in added administrative burden. The incremental funding will eliminate the administrative process and provide stability and focus for the agency to continue with independent oversight, fiscal discipline, and anti-corruption measures in the government.

14.13 All other agencies

To date, implementation progress and engagement has varied across the smaller Government agencies. Some agencies are developing meaningful tools and creative solutions to achieve savings. For example, the Department of Agriculture is planning digital solutions to reduce personnel, while the Department of Environment's green tourism initiative envisions creating job opportunities and tax revenues. Still, many agencies have not planned to implement their respective changes effectively, resulting in slow progress to reach their savings targets. The Government of Puerto Rico must continue looking for ways to reduce back-office expenditures, align staffing levels to the volume of services required, and upgrade those services needed to accommodate for current conditions.

Some success has been achieved to date in these areas. For instance, the Prosecutor Panel was able to reduce staffing levels during several months of the year to reflect the lower volume of work. The Utility Commission was able to consolidate all back-office functions and move into one office/building. The Puerto Rico Education Council was able to consolidate State Departments in under 90 days and saved over $400 thousand by reducing office footprint. Finally, the Office of Women's Advocacy successfully provided its employees with the necessary equipment to process increased call volume after the COVID-19 emergency declaration.

14.13.1 Required implementation actions

To achieve the 2022 Fiscal Plan requirements, all agency groupings must complete key operational efficiencies as outlined in *Exhibit 129*, with particular requirements associated with the Department of Natural Resources.

EXHIBIT 129: REQUIRED IMPLEMENTATION ACTIONS FOR OTHER AGENCY GROUPINGS

Action item	Deadline
▪ Enact legislation for agencies consolidation	▪ Delayed – September 2020
▪ Conduct an analysis of non-personnel spend and prioritize major savings opportunities to be pursued	▪ Delayed – September 2020
▪ Develop detailed plan and timeline for achieving required utilities savings	▪ Delayed – September 2020
▪ Develop target organizational structure and plans for achieving personnel rightsizing; Share with FOMB	▪ Delayed – December 2020
▪ Fully transition to target organizational state and implement personnel rightsizing	▪ June 2022

14.13.2 Required implementation actions related to the Volkswagen Diesel Emissions Environmental Mitigation Trust

The 2022 Fiscal Plan also notes the existence of funding from the Volkswagen Diesel Emissions Environmental Mitigation Trust. This funding has been available since January 29, 2018 but has gone unused due to Government delays in meeting the necessary requirements for accessing

funds from the trust, as well as in the recruitment of necessary personnel for the development and implementation of the mitigation projects.

On March 27, 2020, the Department of Natural and Environmental Resources was designated as Puerto Rico's lead agency for this project, and a high-level action plan has since been developed. Moreover, on September 30, 2020, an Administrative Order with guidelines to evaluate and select proposals was issued, and public notice was published in October 2020 through major newspapers to notify interested parties of the availability of funds under the Mitigation Action Project. Several proposals were submitted thereafter for evaluation. On March 30, 2021, a committee was established to evaluate proposals and the members appointed are being notified. The Department of Natural and Environmental Resources (DNER) expects the committee will evaluate and select approved proposals to then begin the disbursement of funds in the near term. Agency is currently reaching out to proponents that successfully met with the program requirements to commence contract documentation and funds disbursement by June 2022.

EXHIBIT 130: REQUIRED IMPLEMENTATION ACTIONS RELATED TO THE VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL MITIGATION TRUST

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2022	▪ Begin disbursement of funds from the Volkswagen Diesel Emission Environmental Trust pursuant to the Second Mitigation Action Plan (DNER)	▪ October 2020	▪ Delayed – June 2022

In summary, the implementation of agency efficiency measures is necessary to achieve a sustainable and effective Government for Puerto Rico. Fiscal measures should aim to reduce costs while improving the quality of important services. Unfortunately, the Government has too often opted to maintain balanced budgets through quick wins such as incentivized retirement programs that have impaired direct service functions, instead of driving initiatives and reengineering processes that will result in efficient services and spending.

The 2022 Fiscal Plan requires continuation of rightsizing measures to further reduce operating budgets, while focusing valuable resources on improved government service delivery and prioritization of investments into rekey areas requested by the Governor. Notwithstanding the pause in fiscal measures included in the 2020 Fiscal Plan to achieve full implementation of previous measures, few agencies took full advantage and made significant implementation progress. Although the Oversight Board is cognizant that natural disasters and the COVID-19 pandemic have challenged government implementation, efforts must restart with urgency. Time is of the essence to implement the changes needed to bring Puerto Rico closer to fiscal sustainability paired with government efficiency.

Chapter 15. Strengthening Puerto Rico's technology sector

15.1 Broadband infrastructure

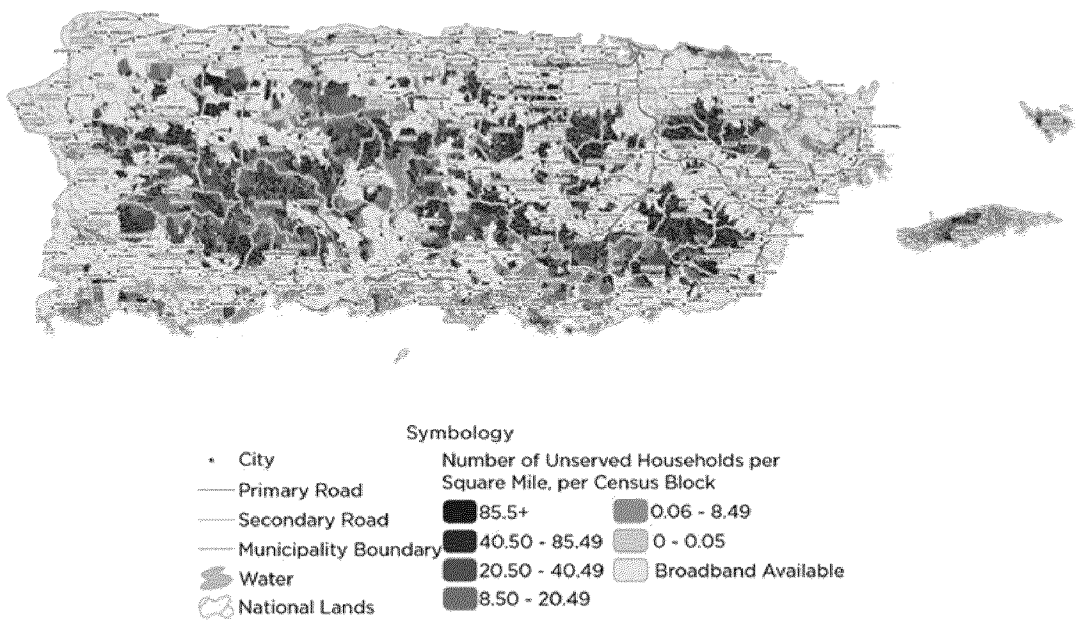
The 2012 Puerto Rico Broadband Strategic Plan (written by Connect Puerto Rico, in conjunction with the Puerto Rico Telecommunications Regulatory Board and the Puerto Rico Broadband Taskforce) established a vision of a Puerto Rico with fast, robust, redundant, and ubiquitous broadband access. Broadband provides numerous socio-economic benefits to communities and individuals, including improving labor market outcomes by enabling remote education and increasing business productivity through better connectivity, providing access to better health

care through telemedicine for those in rural areas, and enhancing civic participation through better access to information.

During the COVID-19 pandemic, internet access has become even more important to residents' livelihoods. Across the U.S., telemedicine is becoming more widespread as a way to deliver health services safely. As public and private school systems alike move to distance learning models, students who do not have access to reliable, high-speed internet are unable to participate – and therefore fall farther behind. Finally, many employers have shifted to remote or hybrid working models, meaning participation in the formal sector requires stable broadband access.

Unfortunately, within Puerto Rico, while there was some growth in broadband deployment in 2011-2014 (driven by an aggressive capacity upgrade of cable networks, as well as the deployment of fiber by other broadband providers), critical broadband infrastructure gaps still exist, particularly across rural areas of the Island. As of 2014 (the most recent year for which data is available), while ~99% of urban households across Puerto Rico had access to speeds of at least 10 Mbps download and 1.5 Mbps upload, this was true for only ~66% of rural households (see *Exhibit 131* below).[302] Broadband adoption figures across Puerto Rico also reveal a persistent gap among certain demographic groups. Broadband non-adopters in Puerto Rico are generally low-income groups, senior residents, people with disabilities, and/or individuals with less education, which mirrors demographic trends related to broadband adoption on the U.S. mainland. These gaps have possibly widened since Hurricanes Irma and María, particularly in the mountainous region of Puerto Rico, where topography has hindered replacement of damaged infrastructure.

EXHIBIT 131: PUERTO RICO BROADBAND STRATEGIC ASSESSMENT (2015) – UNSERVED HOUSEHOLDS



Addressing the digital divide is critical to ensuring that all residents of Puerto Rico can take advantage of the many well-documented socio-economic benefits afforded by Internet connections. These benefits are most evident when people have access to the Internet at speeds fast enough to be considered broadband since these speeds are required to facilitate full interaction with advanced online platforms.

302 Puerto Rico Broadband Strategic Assessment, 2015

Historically, the Federal Government has created a number of programs to expand and subsidize broadband access throughout the United States, including the Federal Communications Commission (FCC) Uniendo a Puerto Rico Fund, the FCC E-Rate and Rural Health Care programs, and the FCC Connect America Fund (CAF), amongst others. To date, these programs have yet to fully address the particular needs of Puerto Rico with regard to broadband availability, quality of service, and adoption, and significant gaps in service availability and take-up remain. For example, the *Uniendo a Puerto Rico Fund*, an FCC reverse auction program to help rebuild the fixed and mobile broadband infrastructure damaged during the 2017 hurricanes, awarded $385.9 million for a 10-year period totaling ($127.1 million and $258.8 million, for fixed and mobile infrastructure, respectively). Although wide in coverage, this program emphasized availability of service over affordability, adoption and usage and focused on deployment across residential locations, potentially overlooking public institutions.

Furthermore, Puerto Rico was recently awarded significant broadband eligible federal funding through the CARES Act, the CRRSA, and ARPA, but other eligible uses for immediate pandemic response were largely given priority. Finally, while significant new national funding is expected through the recently passed Infrastructure Investment and Jobs Act, funds for Puerto Rico are to be determined, and could be less than expected.

To truly address broadband affordability and accessibility, more investment is needed. As such, the 2022 Fiscal Plan complements federal programs with $400 million in FY2022 (to be used over three years) to accelerate growth in broadband access and expand resident adoption and use of online resources, develop necessary and reliable data through an assessment of broadband availability, incentivize private sector investments in broadband build-out, and to improve access to faster speed offerings in underserved areas (the "Broadband Infrastructure Fund"). This emulates the approach taken by several states such as Illinois, Minnesota, California, and Kentucky. While the overarching goal of all these sources of funding is aligned with that of federal programs, their focus, scope, granting and eligibility criteria, and disbursement timeline are different and complementary.

Meanwhile, in order to maximize the impact of these resources, an integrative, comprehensive, and well-coordinated broadband strategy is required. This coordinated strategy should help overcome barriers to broadband expansion, ensure that all residents, enterprises, and public institutions in Puerto Rico benefit from this capacity, and ensure that critical public institutions (e.g., schools, hospitals, libraries) can stay connected. The goal is that the Broadband Infrastructure Fund will support expansion efforts in unserved and underserved areas through a grant program (the "Broadband Infrastructure Grant Program") that will fund a portion of the cost of deployment in these communities.

The Broadband Infrastructure Fund and its associated grant program, stand to complement the existing federally funded programs by:

- Developing and implementing a purpose-built broadband program for the needs of Puerto Rico
- Updating the Puerto Rico Broadband Strategic Assessment, and establishing a system for continual updates, data analysis and maintenance
- Providing increased penetration and faster connectivity to users, at levels compatible with the 2015 Puerto Rico Strategic Assessment (100/50) and higher than minimum federal requirements (25/3)
- Driving up adoption and usage (~40% of Puerto Rico households do not have an internet subscription)
- Connecting critical public institutions, including schools, hospitals, and libraries
- Enhancing resiliency of infrastructure by favoring buried conduit over aerial infrastructure

- Encouraging the participation of local vendors (~69% of local residents live in areas where there is only one provider)
- Providing for roll out over a shorter timeframe (3-years as opposed to 10 years)
- Enabling up-to-date and reliable local data distribution supporting FCC monitoring and assessing the digital divide

A successful Broadband Infrastructure Grant Program will require strong leadership, accountability, continuity, and willingness to work with a broad range of entities, both within the Government and the private sector. There are a variety of ways U.S. mainland states structure their broadband programs (e.g., some states, including Minnesota and Colorado, have broadband offices established by statute or executive order, while others, including Tennessee, have staff within an agency dedicated to supporting broadband programs). In the case of Puerto Rico, the Broadband Infrastructure Grant Program will be managed by a third-party administrator (the "Grant Administrator") who will develop and manage a transparent and user-friendly grant application process, including development of the grant application, and will monitor disbursements from the Broadband Infrastructure Fund, amongst other administrative services.

This 2022 Fiscal Plan requires AAFAF to conduct a transparent, competitive procurement process, as reviewed and approved by the Oversight Board, to select the Grant Administrator. The selected Grant Administrator shall have a staff of experienced professionals and a dynamic network of collaborators that include a broad range of private and government organizations. The Grant Administrator must also ensure accountability by requiring that all grantees demonstrate they are providing the service they were funded to deliver, while also providing the data needed to evaluate the program and progress toward defined goals.

The 2020 Fiscal Plan indicated that AAFAF had to complete the procurement by December 1, 2020, and on October 21, 2020, AAFAF released a Request for Proposals (RFP) for broadband infrastructure grant administrator services (i.e., procure the Grant Administrator). A total of 4 proposals were received by the RFP's deadline. On February 1st, 2021, AAFAF confirmed 5 members for a selection committee, which began to evaluate all proposals. To date, a preferred proponent has not been selected as a Grant Administrator. A schedule for the spending of these funds is shown in *Exhibit 132* below.

EXHIBIT 132: ALLOCATION OF STRATEGIC INVESTMENT FUNDING FOR TELECOM BROADBAND INFRASTRUCTURE ($M)

	FY22	FY23	FY24	Total
Assessment – Update Plan	1.0	-	0.5	1.5
Broadband Grant Program	50.0	168.0	173.0	391.0
Trust Admin/ Program Evaluation	2.5	2.5	2.5	7.5
Total	**53.5**	**170.5**	**176.0**	**400.0**

Over the next three years, in partnership with the Federal Government and public and private stakeholders, the Grant Administrator must collaborate to assess, evaluate, and map various opportunities for broadband expansion. Broadband inventory maps and technology assessment research will enable a better understanding of the Puerto Rico broadband market and help define infrastructure needs in underserved regions, as well as ensure that money is sent to the right places. The Grant Administrator, in collaboration with the broadband provider community,

information and communication technology providers, K-12 education stakeholders, the higher-education community, healthcare professionals, local government, grassroots community groups working to address the digital divide in their communities, and private sector groups for whom broadband is an essential investment asset, will be responsible for:

- Monitoring, measuring, and assessing the impact of broadband across the Puerto Rico economy
- Measuring and publishing aggregate, industry-wide data regarding broadband investment trends
- Measuring and publishing aggregate broadband use patterns
- Adjusting Puerto Rico economic indicators to estimate and monitor the impact broadband has on the overall economy

Moreover, the Grant Administrator will set up the Broadband Infrastructure Grant Program and develop a solicited proposal mechanism with the goal of providing funding to telecommunications operators and other Internet Service Providers to support broadband deployment in unserved and underserved areas. The Grant Administrator will be overseen by a 5-member government committee (the "Grant Committee") which will provide guidance as it relates to the grant administration services and ultimately approve any grants awarded by the Grant Administrator. The Grant Committee will also have one (1) ex-officio and non-voting member from the Oversight Board.

Once funding has been approved and disbursed, the Grant Administrator must institute grant reporting, data collection, and other accountability measures to ensure that funded projects deliver the promised service and provide data necessary for the state to evaluate progress toward its goals. Additionally, and to speed up deployment, the Grant Administrator, in collaboration with relevant telecommunication stakeholders, must also work to streamline construction permitting and planning, and leverage existing public assets, such as poles, ducts, conduits, and rights-of-ways, to incentivize private broadband investments.

The Grant Administrator will also provide timely information and strategic planning support to grantees who can leverage FCC funding opportunities as part of the broadband build-out. Therefore, program grants will need to "plug in" some of the gaps inherent in the federal programs, like focusing on critical institutions (e.g., schools, hospitals, libraries), enhancing resiliency of infrastructure by favoring buried conduit, encouraging higher speed infrastructure (100/1000 fixed, 5G wireless), and making service more affordable by driving adoption and utilization of disadvantaged populations.

By ensuring the Government enhances measuring, monitoring and strategic oversight of telecoms and internet service providers, the 2022 Fiscal Plan expects to improve the overall infrastructure on the Island and to provide enhanced opportunities—through better and more equal access to education, healthcare, and information—for the people of Puerto Rico. The goals set forth by the 2022 Fiscal Plan, which require a Grant Administrator to conduct a data assessment and develop a new strategic plan in consultation with local stakeholders, will ensure a holistic vision for the program, one that is distinct and complementary to other broadband funding streams.

In order to achieve all these objectives in a timely manner and ensure access to this funding, the Government must accomplish the following actions by their respective deadlines:

EXHIBIT 133: REQUIRED IMPLEMENTATION ACTIONS FOR THE BROADBAND INFRASTRUCTURE GRANT PROGRAM

	Action item	Owner	Deadline
To be completed in FY2021	Select Grant Administrator	AAFAF	Delayed – April 2021
To be completed in FY2022 and beyond	Perform Broadband assessment	AAFAF	Delayed – September 2021
	Setup Broadband Infrastructure Grant Program	AAFAF	Delayed – December 2021
	Launch Broadband grants application and selection process	AAFAF	January 2022
	Complete execution of the Broadband infrastructure buildout projects supported by the program	AAFAF	June 2024

15.2 21st Century Technical and Business Education Fund

In addition to funding for telecom and broadband infrastructure, the 2022 Fiscal Plan recognizes the importance of investing to close core skill gaps and ensure the people of Puerto Rico are able to compete in a global economy. Creating an aligned, 21st century workforce that prepares residents of Puerto Rico to thrive is the central challenge to maintaining economic competitiveness over the next decade.

As the pace of technological change has accelerated, one core skill gap in Puerto Rico is around technical capabilities. To close the gap for people who are already in the workforce, Puerto Rico must take a learner-centric approach to make it easier to access targeted technical education.

Meanwhile, as businesses look for new skillsets, they are often willing to look beyond college graduates to fill open roles – especially for technical skills. According to a recent survey by Future Workforce, 90% of employers would hire candidates who validate their knowledge using a certification, digital badge, or coursework in lieu of a college degree.[303] In addition, 55% of employers often offer jobs to people who have not finished college. Today, the number of both traditional and non-degree credentials is rising. There are now 315,067 unique credential programs from non-academic organizations, with the largest categories being digital badges and online course completion certificates. Coding bootcamps, which have appeared recently, were responsible for over 1,000 unique credentials.

In Puerto Rico, there are initiatives such as Codetrotters Academy, which offers 10-week certification programs in web and mobile development, and the Holberton School, which recently opened a campus on the Island. However, these programs are limited and may not be affordable to many residents. In addition, they mostly focus on web development and programming, thereby leaving an array of important technical areas uncovered, such as cloud infrastructure, server administration, cyber security, business intelligence, artificial intelligence (AI), and machine learning (ML).

Addressing the need for additional short-duration technical and business education opportunities requires forceful and forward-thinking leadership. To spearhead this drive for Puerto Rico, the 2022 Fiscal Plan allocates $50 million for a 21st century Technical and Business Education Fund.

The 2020 Fiscal Plan required AAFAF to conduct a transparent, competitive procurement process as reviewed and approved by the Oversight Board to select an organization to serve as the

303 Future Workplace and Wiley Education Services, "Closing the Skills Gap," 2019

administrator of these funds (the "Education Fund Administrator"). The selected Education Fund Administrator must have a staff of experienced professionals and a dynamic network of collaborators that include a broad range of private and government organizations. AAFAF must complete the procurement by December 1, 2020. To date, the RFP Request for Proposal has not been completed and a fund administrator has not been selected. The Oversight Board expects this administrator to be selected by September 2021, in order for the Government to keep access to funding for this important program.

The Education Fund Administrator will be tasked with developing a plan for 21st century technical and business skills for the entire workforce pipeline in Puerto Rico. The plan will prioritize the technical and business areas/skills to focus on, and the program will partner with multiple stakeholders in catalyzing and evolving the skills ecosystem. Scholarships would be made available for programs that are certified by the Education Fund Administrator, which would do so in alignment with the skill development plan. To support these efforts, the Education Fund Administrator must establish an engagement mechanism with stakeholders (e.g., a private sector taskforce), publish the results of its skills assessment report, create the supporting infrastructure for the scholarship program, and put in place a regular monitoring and evaluation process.

Furthermore, the plan will allow universities and private providers to develop and open programs in anticipation of fees from the scholars' enrollment. Given the importance of online learning, the plan should also encourage programs to be offered in multiple formats, be it online, on campus, or a hybrid of the two.